EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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EC and EFTA
Back to the drawing board
Page 4

World News

Conservative likely to be Brazil's new President

An unofficial exit poll gave victory to conservative candidate Fernando Collor de Mello in Brazil's presidential election, the first in 29 years.

The IBOPE institute said Collor polled 52 per cent of valid votes in Sunday's election and socialist candidate Luis Inacio Lula da Silva 48 per cent. The official result may not be known until Tuesday. Page 2

Hong Kong survey
A survey on Hong Kong will today show that less than one-third of the colony's professional staff intend to stay there after it reverts to Chinese sovereignty in 1997. Page 18; Refugee riots, Page 4

Soviets sign EC deal
Soviet Foreign Minister Eduard Shevardnadze arrived in Brussels to sign a trade and co-operation accord with the EC and visit Nato headquarters.

Pope criticises UK
The Pope criticised Hong Kong's forced repatriation of Vietnamese boat people, saying the decision of the British colony's government was "grave." Page 18; Page 4

Defence talks stall
Progress towards a common market in arms between European members of Nato has fallen behind schedule in the initial stages. Page 4

US to boost savings
Tax incentives to lift the low personal savings in the US are set to be included in the Bush Administration's budget submission to Congress next month. Page 2

Iranian by-elections
Moderate Iranian politicians scored gains in the country's latest round of by-elections, which have been seen as the first test of popular support for the reformist President Ali-Akbar Hashemi Rafsanjani.

Korea purges past
Government and opposition leaders reached agreement in South Korea over the resolution of issues outstanding from the dictatorial regime of former President Chun Doo Hwan. Page 3

Assassination foiled
Egypt's Minister of the Interior, General Zaki Badr, survived an apparent assassination attempt when a car bomb exploded near his motorcade in Cairo. Page 3

Mandela supported
Anti-apartheid leaders in South Africa reaffirmed their "unwavering confidence" in Nelson Mandela, jailed leader of the African National Congress, in an attempt to counter reports of dissent in the opposition. Page 3

Research restrained
The 12 EC member states set a research budget for the next five years of Ecu5.7bn ($6.6bn), in defiance of the Commission's plans for greatly increased spending. Page 4

US judge killed
A US Appeals Court judge, Robert Smith Vance, was killed and his wife seriously injured when a bomb exploded at their home, the FBI said.

Shooting in Panama
A US officer was shot dead by Panamanian soldiers near the headquarters of strongman General Noriega.

Sudanese hanged
A Sudanese businessman, Magdy Mahgoub, was hanged for illegally possessing foreign currency in the first reported execution under the junta which seized power in June.

Turkish concessions
Greek Orthodox Patriarchate in Istanbul opened for the first time in 48 years after a renovation project that may signal better ties between Greece and Turkey.

Brussels rejection
European Commission is today expected to reject Turkey's two-year old application for EC membership. Page 4

Sudan accuses UN
A member of Sudan's ruling military junta accused a UN-led relief programme of smuggling arms and ammunition to rebels fighting the army in southern Sudan.

Fokker catches fire
An almost new Air Europe Fokker 100 made an emergency landing at Kastrup airport, Copenhagen, after a fire.

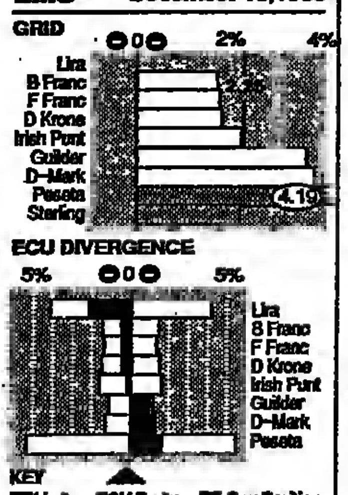
Business Summary

World Bank calls for broader debt relief plan

THE World Bank today calls for a broadening of the international debt strategy to include debt concessions for highly indebted countries, such as Poland and Egypt, which owe considerable sums to government creditors.

Governments of industrialised countries have conceded concessional debt relief to the poorest African countries but have resisted extending this to richer, "middle-income" developing countries. Page 18; Brady Initiative, Page 4

EUROPEAN Monetary System: EMS currencies remained bunched in two distinct groups last week, with the Dutch guilder, D-Mark and peseta at the top and the Italian lira, French and Belgian francs and the Danish krone near the bottom.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

MACK Trucks, US truck maker 45 per cent owned by Renault of France, said it is failing to comply with some covenants on $309m of bank loans by its financial subsidiary. Page 23

HUNGARIAN privatisation: Ibusz, one of the country's largest travel agencies, has been partially sold to an international consortium headed by Austrian bank, Girozentrale und Bank der Oesterreichischen Sparkassen. Page 23

WINSOR Industrial: one of Hong Kong's industry leaders, announced profits after tax of HK$165.39m ($21.2m) during six months to end of September, only 1.8 per cent above last year because of a weak textile market. Page 23

EASTMAN Kodak said previously announced restructuring actions will reduce net profits by about $273m in the fourth quarter and about $500m for the full year. Page 23

CITROEN, part of PSA, leading French car group, expects sales to rise by 16.5 per cent to a record FFr68.1bn ($11.15bn) this year. Page 23

EUROPEAN acquisitions: cross-border acquisition activity surged to record levels in the third quarter of 1989, according to figures published by Translink's European Deal Review. Page 23

THYSSEN, diversified West German heavy industrial group, posted a 21 per cent advance in net profits to DM825m ($477m) for 1988-1989, up from DM680m the previous year. Page 23

FIAT Auto will be paying L15.3bn ($12.3m) for its controlling share of the distribution company which markets Innocenti motor cars, but a price has not yet been fixed for its 49 percent holding in the production company responsible for the Maserati. Page 23

CHASE Corporation, property and investment group, reported the biggest-ever loss from a New Zealand company, of NZ$841m ($403m) for the year to June 30. Page 23

POLAROID, US-owned photographic manufacturer, cut absenteeism at its Scottish plant by introducing a workplace health campaign and stronger monitoring of the reasons for absence. Page 6

BRITISH manufacturing exports: a recovery in export demand is reported in the latest monthly survey of industrial trends carried out by the CBI, the employers' organisation. Page 6

Volkswagen and Ford plan new vehicle in Europe

By Kevin Done, Motor Industry Correspondent, in London

VOLKSWAGEN and Ford, two of the world's biggest car makers, are planning to join forces in Europe to develop a new vehicle to compete in what is expected to emerge as one of the fastest-growing segments of the European car market in the 1990s.

The two groups have begun a feasibility study into the joint production of a so-called multi-purpose vehicle, or people carrier, for a market sector pioneered in Europe by Renault with its Espace range.

The Japanese companies Nissan, Toyota and Mitsubishi have entered the fray with their Prairie, Spacecruiser and Space Wagon ranges, and most of the leading car makers in Europe, including Mercedes-Benz, Peugeot, Fiat and General Motors (Opel/Vauxhall) are understood to be developing similar vehicles.

Such vehicles are already claiming a growing share of the US car and light truck market following the original success of the Chrysler Voyager launched in the mid-1980s.

The planned collaboration between Ford and Volkswagen is further evidence of the growing pressures on even the world's biggest vehicle makers to seek co-operative projects to spread the risks and costs of developing vehicles to compete across all market segments.

Ford and Volkswagen are already closely allied in South America, following the merger in 1987 of their local operations to form Autolatina. Autolatina, 51 per cent owned by VW and 49 per cent by Ford, is one of the largest joint venture companies in the world motor industry.

Both Ford and VW confirmed yesterday that they had begun a joint study into a new vehicle programme, but refused to disclose further details.

It is understood that the two companies are considering combined production of about 200,000 multi-purpose vehicles a year, with production beginning in 1993/94. The output would be shared between the two groups and sold separately under the Ford and VW badges. It appears likely that the vehicle will be developed from the floorpan (chassis platform) of the Volkswagen Passat car and estate car range.

It has not yet been decided in which country production of the vehicle would be located - Spain, Portugal, the UK and Italy are possible candidates - nor whether VW and Ford will develop a greenfield site or seek to expand existing capacity.

Both groups have begun separate collaboration projects to cover other gaps in their European product ranges, where the expected sales volumes are unlikely to be large enough to justify the high cost of independent vehicle development and production.

Earlier this year, Ford announced that it was to link with Nissan for the production of a four wheel drive leisure-utility vehicle in Europe to compete in another fast-growing sector with vehicles pioneered by Land Rover and Japanese rivals such as the Mitsubishi Shogun/Pajero, Isuzu Trooper and Suzuki Vitara. The Ford/Nissan vehicle is being developed largely by Nissan and will be produced at Nissan's Spanish plant.

In January this year, VW began production in West Germany of another niche vehicle, a one-tonne pick-up based on the Toyota Hilux with output for the European market shared with the Japanese group.

EUROPEAN VEHICLE JOINT DEVELOPMENT PROJECTS

- December 1989: Ford, Volkswagen confirm feasibility study for multi-purpose vehicle.
- October 1989: Renault, DAF to develop medium/heavy van range in UK and France.
- September 1989: Rover, Honda begin production of Rover 200/Honda Concerto, a joint car development programme, in UK.
- July 1989: Ford, Nissan agree collaboration on four wheel drive leisure utility vehicle at Nissan's Barcelona plant from 1993.
- May 1989: GM, Isuzu announce plan for Isuzu-derived four wheel drive leisure utility vehicle.
- January 1989: VW, Toyota begin production of Toyota one-tonne pick-up at VW's Hanover plant.
- February 1988: Renault, Chrysler sign letter of intent for development of a mini leisure/utility vehicle.

Poland unveils harsh reforms to build free-market economy

By Christopher Bobinski in Warsaw

THE POLISH Government yesterday unveiled a crash programme of economic reform designed to curb galloping inflation and reduce state subsidies to enterprises, in a bid to build Eastern Europe's first free-market economy.

Mr Leszek Balcerowicz, the Finance Minister, yesterday presented 20 bills and resolutions to parliament in a hudget which aims to reduce suhsidies, remove price controls, liberalise foreign exchange rules and introduce real interest rates. He said: "This is a landmark change that wa are making. It is unique in history. It falls to us to be pioneers. Any delay in the economic changes could be an unforgivable mistake."


Balcerowicz: "This is a landmark change we are making"

The measures, which are due to be introduced on January 1, are expected to bring a 25 per cent drop in real incomes. They are designed to slash inflation from the present figure of np to 50 per cent a month to five per cent by April through holding down wages, cutting subsidies and tightening credit.

An expected 400,000 workers could be unemployed within a few months. The measures also include a depreciation of the Polish zloty hy two-thirds against the US dollar and, for the first time since 1982, a balanced hudget.

Mr Balcerowicz described the programme as a "deep surgical operation" which would would be "difficult" for the population hnt he told the Sejm, the Polish parliament's lower chamber, that the only alternative was to live with hyper-inflation.

He is on the verge of completing negotiations with the International Monetary Fund (IMF) on an adjustment programme and said that the "harsh logic of the process of change" towards a market economy, and away from what ha called the infinence of "19th-century doctrines," demanded that parliament accept his ansterity programme.

The programme is expected to get through parliament in the next two weeks, although yesterday Communist Party depnties made it clear they intended to make political capital out of the hardship which it will entail.

Mr Lech Walesa, the Solidarity leader, has come out grudgingly in favour of the plans, although he has urged the Government to speed up the privatisation of industry, which for the moment has taken second place to the fight against inflation.

The programme is already meeting sharper criticism elsewhere. Farmers' deputies in parliament are openly criticising the Government for its failure to protect the countryside from the effects of the policies and a stormy debate on agriculture is expected today.

A Rural Solidarity congress at the weekend voted out Mr Jozef Slisz, a deputy speaker of the Senate. They elected Mr Gabriel Janowski in his place, who is expected to lead the union on a wave of criticism of the Government's policies.

Outlays on the armed forces will also be reduced next year, cutting manpower hy 43,000 down to 300,000. Internal security will also fall in real terms.

It was also announced at the weekend that Poland expects to run e $1.2bn hard currency trade and services deficit next year compared to a deficit of $200m in 1989.

The country's hard currency debt is to rise hy $3.6hn to $43.2bn. The Poles are expecting to reschedule $5bn worth of capital and interest payments falling due to Western creditors next year.

Agreement with the IMF should open the way for an immediate $215m bridging loan from the Bank of International Settlements in Basle, to be repaid when standby credits worth $575m become available

Mr Balcerowicz yesterday also stressed his hope that a $1bn stabilisation loan from the West will become available soon – "in accordance with the many declarations already made by the West."

This statement reflects concern by the Poles that negotiations on the loan are dragging on while the funds are needed by Poland at the start of the year

"Since the changes in East Germany and elsewhere in the Bloc, we've noted a slackening of enthusiasm in the West on this issue," one official said yesterday.

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US relaxes rules on East Europe high-tech sales

By Peter Riddall, US Editor in Washington

THE US is to relax controls on the export of high technology products to Poland and Hungary, provided they are not resold to the Soviet Union.

The decision is being presented by the US as the first stage of a broader review of Western restrictions on sales to the Eastern bloc.

The move is highly significant because the US has traditionally taken the hardest line on controlling high technology exports to East Europe within the 40-year-old Co-ordinating Committee on Multilateral Export Controls, generally known as CoCom.

This consists of the Nato countries plus Jepan and Australia.

The main immediate impact is likely to be on sales of telecommunications equipment and compnters.

Mr Robert Mosbacher, the US Commerce Secretary, said yesterday, that in the light of the changes in East Europe, the Bush Administration believed in "opening the door for higher technology as long as our national security is protected."

He said the relaxation would start with Poland and Hungary becanse these countries had told the US that they would "protect ns and give us the opportunity to review what they are doing with the higher tech items."

The entire system of controls is likely to be reviewed at a meeting of CoCom in Paris in February when the US is also expected to propose a substantial reduction of the 100,000-plus items which the committee seeks to keep out of the Soviet hloc.

Mr Mosbacher said Poland and Hungary had both "started negotiations with the US on verification and continuing observation on what they do with whatever we send them." Provisions to prevent transshipment would be a condition of any sales.

However, Mr Moshacher warned that this relaxation would not yet apply to the Soviet Union which "has to take several steps before we're ready to get into that same mode with them. Eventually they may be included, but not yet."

At present, he emphasised that sales to the Soviet Union would be examined on a case-by-case basis. Earlier this year the US released middle technology for export to the Soviet Union and it would, he said, be "very carefnl ahout going higher than that."

President George Bush said on Saturday, after a meeting with President François Mitterrand of France on the Caribbean island of St Martin, that his Administration "should and would review" US participation in CoCom.

Lyonnaise des Eaux expected to announce stake in UK water

By Ray Bashford in London

LYONNAISE des Eaux, the French water snpplier, is expected to announce today that it has acquired between 7 per cent and 10 per cent of the capital in Anglian Water, one of the water companies recently privatised by the British Government.

The French company is also likely to disclose the purchase of significant stakes in at least two of the other nine water companies which began trading as private companies on the stock market last Tuesday.

French companies have been active in the UK water industry for the past two years while the privatisation plan has been taking shape. However, the purchase of these stakes would be the most significant move they have made so far.

Lyonnaise des Eaux yesterday declined to comment on reports about tha stakes building but is expected to comment today after the release of a brief statement.

Générale des Eaux and SAUR are two other French companies which have been active in the industry and are believed to have shares.

Lyonnaise des Eaux already owns four of the 29 statutory water companies, including two in the Anglian region in the east of the country – East Anglian and Essex. Its control of Newcastle and Gateshead and Sunderland in the north of England has led several analysts to conclude that the French company may see a geographic advantage in taking a large minority holding in Northumbrian, another northern company, which was actively traded after listing.

Trading was heavy in the shares of all the companies last week and they closed on Friday with hefty premiums.

However, exceptional activity in several groups including Anglian, South West, Northumbrian and Wessex has lead to speculation that at least one group was attempting to build strategic holdings in some companies as a launching pad for e possible takeover offer.

The Government has retained a golden share to protect the companies from takeover during the next five years, but holds to right to waive if it considers appropriate. Anglian attempted to uncover the identity of the buyer last Friday after trading in the partly-paid shares was hectic and they surged e further 7p to 163p.

The company served notices under Section 212 of the Companies Act which gives brokers "reasonable" time to identify the ultimate owner of shares in nominee accounts.

Because of the wording of this section of the Companies Act, Lyonnaise des Eaux is under no obligation to make a statement today. However, the French are expected to end the speculation which may damage relations with the UK water industry. An analyst said yesterday they were keen to dispel any impression they were potentially predatory holders of the shares and that they had no intention of lifting their stakes beyond 10 per cent.

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THE MONDAY INTERVIEW

Mr Makoto Utsumi, Japan's Vice Minister of Finance for International Affairs, believes some tension between his ministry and the US Treasury may be e good thing, being "necessary in order to bring about progress." Page 40

OVERSEAS NEWS

US budget likely to lift personal saving

By Peter Riddell, US Editor, in Washington

TAX incentives to lift the low personal savings in the US are set to be included in the Bush administration's budget submission to Congress next month.

The Treasury has been working for several months on proposals to increase the US savings rate, whose low level is widely seen as central to the country's underlying economic problems and its *inadequate* investment levels.

As a first stage, Mr Nicholas Brady, Treasury Secretary, last week presented to the president's Economic Policy Council plans for a new Family Savings Account, under which savers could deposit up to $5,000 a year and be exempt from taxes on interest and dividends, if the money were left there for 10 years.

Final decisions have yet to be taken on details, and other variants being studied involve a lower level of minimum deposit and a sliding scale of early withdrawal penalties.

This plan has the short-term fiscal advantage that the loss of tax revenue would build up slowly over the 10 years of the deposit, rather than come immediately as with the deduction of annual contributions to *individual* retirement accounts.

The plan is intended to give the administration the political initiative in the growing debate in Washington about how to enhance savings. The Family Savings Account will be presented, with revived proposals to reduce capital gains tax, as the first instalment of a broader strategy to review US savings.

As a second stage, the Treasury intends to produce a study in the spring on ending the current double taxation of dividends (first by corporations on their profits, and then by individuals on their income). This is to encourage companies to rely more on equity than debt.

Any solution is more likely to involve giving businesses credit for the taxes which shareholders pay (*or* a parallel change for individuals) than changing the general tax relief on interest payments on debt.

However, the Democratic-controlled Congress has proposals of its own to encourage savings. In particular, Senator Lloyd Bentsen, chairman of the Senate Finance Committee, has said he favours legislation in the next Congressional session to extend tax relief on individual retirement accounts for families earning more than $50,000 a year, while allowing the accounts to be used for the first time for house purchases and education.

Some Democrats are sceptical about the administration plan which, they suggest, will mainly benefit the existing well-off and encourage switching of sav*ing from existing accounts* to *take* advantage of the tax incentives.

The debate over these proposals is likely to be become linked with a renewed argument over cutting capital gains tax, which was blocked last month in the Senate by Democratic leaders but will be included in the January 22 budget. The current betting is that some form of gains tax reduction will be approved next year.

American officer shot dead by Panamanian troops

A US officer was shot dead by Panamanian soldiers on Saturday night near the headquarters of General Manuel Noriega, the local strongman, Reuter reports from Panama City.

A US spokesman said a curfew was imposed on US personnel in the country after the incident, the first for many years in which a US soldier *was killed by Panamanian* forces. There seemed to be no change in US forces' alert status.

There was no immediate comment from the Panamanian Defence Forces (PDF) or the US embassy. Panama City remained calm.

The Southern Command, US army headquarters for the region, said the dead officer was one of four US military personnel who had lost their way in a car while off duty and in civilian clothes. They found themselves close to the PDF *headquarters and encountered* five or six uniformed PDF soldiers and about 40 civilians. The four fled after uniformed PDF soldiers tried to pull them from their car, it added. PDF troops then opened fire.

The Command said one of the officers died after arrival at an army hospital. The other three were *not* injured.

While harassment of US military and civilian personnel has subsided in recent months, the spokesman said there had been 800 incidents of harassment since February 1988.

The Southern Command television station said on Saturday that an 11 pm to 5 am curfew had been imposed for all US people in Panama.

The network said off-base activities were prohibited and Americans already outside the base should avoid public areas.

The shooting happened a day after Panama's National Assembly had unanimously declared the country in a state of war with the US and granted Gen Noriega wide powers which formalised his long-standing *de facto* rule.

Tension has been high between the US and Panama since rebel troops and junior officers on October 3 failed in a coup attempt against the general, whom Washington wants removed from power. He has been indicted in the US on drug trafficking charges, which he denies.

During the attempt, *US* troops based in Panama blocked roads to the PDF headquarters. US officials denied any role in the affair but said they knew in advance a coup was being planned.

After the coup attempt, President George Bush was criticised by opponents for not seizing an opportunity to force out Gen Noriega.

Collor given slight edge as Brazil picks president

By Ivo Dawnay in Rio de Janeiro

THE three largest opinion polling organisations gave the centre-right candidate, Mr Fernando Collor de Mello, a wafer-thin advantage over his socialist rival, Mr Luis Inácio Lula da Silva, yesterday as some 82m voters went to the polls to choose between the two sharply contrasted Brazilian presidential candidates.

But pollsters admitted that the margins – ranging from three to 0.5 percentage – were so narrow that the country's first direct ballot for the presidency since 1960 was *just* about too close to call.

As formal campaigning ended and flag-waving crowds took to the streets, both candidates were confidently claiming victory. The electoral authorities believe, however, a clear result could take as much as four days to emerge.

Lula, as the Workers' Party *(PT) candidate is universally* known, told foreign journalists, in an eve-of-poll news conference in São Paulo, that he was convinced he would win by three or four percentage points. "It is a peaceful revolu*tion – the first time* in the history of this country that an ordinary worker has left a factory and reached the presidency."

Mr Collor, an exponent of liberal economic policies, avoided the press but was reported to be convinced of victory, after what was widely considered a strong performance in the last televison debate betwen the candidates.

The year-long campaign reached *its climax* with Brazil's cities and towns echoing to a cacophony of chanting crowds and honking car horns as each candidate's supporters attempted to drown out their rivals.

Collor: Strong on television

The election – the first direct vote for the Brazilian presidency with universal suffrage – formally ends Brazil's long transition from military dictatorship to full civilian democracy.

President José Sarney, who will surrender office to his successor in March, told television viewers in a national broadcast on Saturday night that he had now completed his mission by bringing the world's third largest electorate peacefully to the ballot box.

The winning candidate will have to tackle inflation nearing 50 per cent a month and rising public unrest at the sharp disparities in wealth in what is one of the world's most inequitable societies.

● In São Paulo police were laying siege yesterday to a suburban house where an international gang of kidnappers was holding one of Brazil's best-known businessmen *at gun*point.

Mr Abílio Diniz, a multi-millionaire and effective head of the 548-supermarket Pão de Açúcar group, was seized last Monday but news media had agreed to refrain *from* reporting so as to help investigations.

Despite the agreement, word of the kidnapping has spread rapidly, adding to the growing sense of unease among Brazil's business community, already somewhat unnerved by Lula's rise in the opinion polls.

Police have insisted that the kidnap gang, which appears to include Chileans and Brazilians, is a criminal organisation *with no political motives*.

Bush sanguine on Peking visit

By Peter Riddell in Washington

PRESIDENT George Bush believes that the controversial visit of two senior US officials to Peking a week ago will have "positive results", though these may take time to appear.

The visit by Mr Brent Scowcroft, the president's National Security Adviser, and Mr Lawrence Eagleburger, Deputy Secretary of State, has been widely attacked in the US, both as being premature only six months after the Tiananmen Square massacre and as sending the wrong signal to Soviet leaders about the suppression of dissent.

However, having met President François Mitterrand of France on Saturday, on the Caribbean island of St Martin, Mr Bush said he had "no second thoughts at all" about ordering the visit.

He hoped it would have "positive results – and we've already seen a couple of indications of that." He seemed to be referring to Chinese promises not to supply ballistic missiles in the Middle East. He added: "But I think, knowing China, time is required. I think we've made the right step and only time will tell how the leaders in China view the mission."

US administration *officials* hope for some more tangible movement from the Chinese authorities in the coming weeks, particularly since legislation to strengthen sanctions against China is likely to be revived, with strong support, when the US Congress returns five weeks hence.

There have been unconfirmed reports of discussions about allowing Fang Lizhi, prominent Chinese dissident and scientist, to leave China. He has been in the US embassy in Peking since he sought refuge there last June. This remains a source of tension between the two governments.

Presidents Bush and Mitterrand were broadly agreed about how to respond to the current changes in eastern Europe. The French president welcomed the US recent proposals for strengthening US links with various European institutions.

Mr Mitterrand brushed aside suggestions that France had displaced Britain in a special relationship with the US: "We're not in a sentimental competition."

US troops in Europe 'to be halved'

SENIOR US Defence Department officials are recommending that the number of US troops in Europe eventually be halved, if Soviet troop reductions continue for several years, a published report says, AP reports from Washington.

Reduction of the current force of 305,000 US air and ground forces to 150,000 would retain a "political minimum" to maintain a military presence there, Defence officials told The Washington Post, according to a story published in the newspaper yesterday.

That reduced level would enable the US to meet global responsibilities in an era of deficit reduction at home, said the sources, who say they have presented their plan to Mr Dick Cheney, Defence Secretary.

Knowledgeable sources said the proposals recommend the US, for the first time, to consider reducing its naval commitment to defend North American sea lanes in order to reinforce Europe from America in wartime.

Planners also have concluded that the Soviet Union no longer can count on the *armies of its Eastern Europe* allies to support it in any hostilities, according to sources.

One policy paper assessing Germany's future role in Europe predicted that some form of reunification will occur "within a few years. "We will be likely to face, by the next century, a Europe shaped as much by German economic influence and military potential as by Russian military presence," the paper concluded.

Meetings this week will cover options for reshaping Pacific Basin forces and strategic nuclear forces.

For next month, Mr Cheney has requested a senior review of the Strategic Defence Initiative and space programmes, weapons acquisition and the US defence-related industrial base.

Pinochet smiles on Chile's return to democratic ways

Barbara Durr analyses an electoral aftermath

THE CHILEAN return to democracy looks to be already into its stride. After the country's first general election for more than 16 years, President Augusto Pinochet welcomed the return of democratic ways and offered full co-operation from the outgoing military regime with the newly elected authorities.

President-elect Patricio Aylwin, in turn, said he considered the general's offer very positive. The two men have not met since Mr Aylwin's electoral triumph on Thursday but it is widely believed that, in the period between now and March 11 when Mr Aylwin will be inaugurated president, they will have discussions.

An accord on civilian-military relations is widely seen as a top political priority. Mr Aylwin will be seeking Gen Pinochet's departure from the powerful post of army commander-in-chief, which the constitution allows the old general to occupy until 1997.

However, Gen Pinochet is expected to hold on to the job until assured that military officers will not be tried for human rights violations during his regime, which began with a military coup in 1973.

The first crucial step toward an overall accord will be the handling of a proposed law on the armed forces, which is hanging fire with the military junta, the outgoing regime's legislative branch. According to Mr Aylwin's political advisors, the law would virtually create a state within a state, much diminishing civilian control of the military.

General Fernando Matthei, the Air Force Commander, has said that he has problems with the proposed law, so it might become a bargaining chip in negotiations on the human rights issue.

Mr Aylwin will also be pressing for an accord between main labour unions and business groups. With such an accord, the new government would hope to stem pressure for quick wage rises, while establishing a framework to loosen the military regime's restrictive labour laws.

On both these issues, Mr Aylwin is likely to seek support from the moderate conservative party, National Renovation, which is now Chile's second most important political party after the president-elect's Christian Democrats.

Mr Andrés Allamand, National Renovation general secretary, has signalled his party's willingness to work with Mr Aylwin.

If the latter, a political moderate, fails to secure his accords by March 11, he will have resort to the new Congress, where he would be able to count on a heavily centrist composition.

In the Senate, the opposition alliance took 22 seats, 13 of these for Christian Democrats. National Renovation won six and another eight went to independents associated with it. The more right-wing Union of Democratic Independents (UDI) party won two seats.

Top left-wing party leaders, such as the social democrat Mr Ricardo Lagos, president of the Party for Democracy, and the socialist Mr Luis Maira, president of the Christian Left, failed to win congressional seats.

In the 120-member House of Representatives, the alliance took 69 seats, 38 of these for Christian Democrats, and the right-wing electoral group took 48, including 29 for National Renovation. Only two left-wingers were elected, plus one independent.

The elections showed a marked rejection of extreme parties of right and left. In that these failed to enter Congress, the constitution now removes their status as legally registered parties.

The moderate tone of the new Congress heartened business on Friday to the extent of a 5.3 per cent rise in the Santiago stock market and a three-peso fall in the black market dollar rate.

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OVERSEAS NEWS

Activists reiterate support for Mandela

By Patti Waldmeir in Johannesburg

ANTI-APARTHEID leaders in South Africa have reaffirmed their "unwavering confidence" in Mr Nelson Mandela, the jailed leader of the African National Congress, in an attempt to counter reports of dissent within opposition ranks over Mr Mandela's recent meetings with the government.

Leaders of the Mass Democratic Movement (MDM), the country's largest anti-apartheid coalition, said on Saturday they had full confidence in Mr Mandela's political leadership, and their support for him was unqualified.

Their statement followed Mr Mandela's meeting last week with Mr F.W.de Klerk, the South African President, which provoked concern in the ranks of the MDM. Some activists said they feared Mr Mandela was already engaged in negotiations with the government, although the MDM continued to rule out talks at this stage.

The statement said Mr Mandela had kept them fully informed of his efforts to "facilitate" negotiations between the ANC and Pretoria, contradicting earlier statements from MDM leaders who said the movement had not been told of last week's meeting.

The subject of negotiations was also addressed at the weekend by the leaders of two rival black groupings, Chief Mangosuthu Buthelezi of the Zulu political movement Inkatha, and Mr Japhta Masemola of the Pan Africanist Congress (PAC).

Mr Masemola argued that negotiations could only begin when the government was "on its knees".

S Koreans agree moves to resolve Chun legacy

By Maggie Ford in Seoul

GOVERNMENT and opposition leaders have reached agreement in South Korea over the resolution of issues outstanding from the dictatorial regime of former President Chun Doo Hwan:

At a seven-hour meeting, President Roh Tae Woo and the three opposition leaders thrashed out an 11-point plan which is expected to settle the dispute by the end of the year.

The agreement represents a big breakthrough in Sonth Korea, where democratic development has been held back by the difficulty of settling the issues of the past.

The Government has agreed to almost all the demands of the opposition leaders, opening the way for a big reshuffle of the ruling party and cabinet by the end of the year, to usher in what the President has described as a new democratic decade.

Under the plan, former President Chun, at present in exile at a remote Buddhist temple, is expected to testify to the National Assembly about the circumstances of his military coup in 1979 and other alleged misdeeds.

Mr Chung Ho Young, the general held responsible for the 1980 military killing of at least 200 people in the provincial city of Kwangju, is to be asked to resign from his parliamentary seat by President Roh. Mr Chung has indicated that he will agree to any such request.

The National Assembly is to file a perjury charge against Mr Lee Won Jo, widely regarded as the main instigator of corruption and illegal fund gathering under ths Chun regime.

Another former general, Mr Lee Hui Sung, now president of a public housing corporation, is also expected to resign in connection with the Kwangjn incident.

Special laws will be enacted to restore honour and pay compensation to the Kwangjn victims, who at the time were branded as communists.

The political leaders also agreed to a comprehensive set of proposals to deal with other national problems.

A special session of the National Assembly is to he held in February to revise or repeal the National Security law, under which many people have been jailed for having contact with communist North Korea.

The Government is to free more political prisoners in a Christmas amnesty and opposition leaders agreed to approve the budget, delayed for several months pending a political settlement.

Government and opposition parties have also agreed to work together to encourage dialogue between management and labour to end destructive strikes and to solve other social problems, snch as the housing crisis.

Most Sonth Koreans will wait to hear Mr Chun's testimony before deciding that the misdeeds of his regime have finally heen properly accounted for.

But a big hurdle in the country's transition to democracy now seems to have been cleared.

President Yang Shangkun waves goodbye as he leaves China

Yang on Mideast tour

YANG Shangkun, China's hardline president, whose political star has risen during the crackdown on dissent since June, left yesterday for a tour of four Middle Eastern countries, Reuter reports from Peking.

Yang's itinerary takes him to Egypt, the United Arab Emirates, Kuwait and Oman – all states whose ties with Peking have been undisturbed by China's political turmoil.

Middle Eastern diplomats described the tour as intended to reaffirm Chinese ties to the region, where Peking has few direct interests but is eager for greater economic links, especially with Kuwait and other oil-rich states.

The trip also serves as an uncontroversial diplomatic excursion at a time when China's relations with the outside world are at their worst for several years.

Peking is anxions to attract investment from Knwait – one of the world's biggest overseas investors – and other oil states as Western business interest in China plummets because of fears of political instability.

Yang, believed to have played a key role in ordering the army onslaught on Peking in June which killed thousands of civilian protesters, is widely tipped as a successor to Deng Xiaoping as the country's most influential leader.

Action over anti-Sikh rioters proposed in Punjab plan

By K.K.Sharma in New Delhi

THE first step towards settling the Punjab issue was taken yesterday when an all-party conference decided the Indian Government should take action against those guilty of instigating the killing of Sikhs in riots after Mrs Indira Gandhi's assassination in 1984.

Sikhs in Punjab and elsewhere are particularly bitter over the failure to prosecute those guilty of killing nearly 3,000 Sikhs in Delhi and northern India in 1984. They blame the Congress Party, led by Mr Rajiv Gandhi, for failing to give them justice even though commissions of inquiry have identified the guilty.

The all-party conference was called by Mr V.P.Singh, India's new Prime Minister, who has given priority to finding a solution to the Punjab issue. Militant Sikhs are seeking an independent nation, Khalistan.

Although the move to take action against those guilty of instigating the 1984 riots is certain to be welcomed by Sikhs, the religious community has many more demands and grievances which they want redressed before associating themselves with efforts to find a solution to the Punjab issue.

Yesterday's conference was boycotted by Sikhs, including the militant faction of their main political party led by Mr Simranjit Singh Mann, a former police officer freed a fortnight ago, after spending five years in jail, when he and seven other radicals were elected to Parliament recently. The Mann faction also wants a general amncsty for imprisoned Sikhs, action against police officials they accuse of repressive measures in Punjab, a repeal of "draconian" laws and withdrawal of paramilitary forces from the state.

A statement adopted by yesterday's conference spoke of the "unanimous determination of the nation that the agony of Punjab which is, in fact, the anguish of the entire country, must be ended expeditiously".

The conference sought a settlement within a framework of the Indian constitution, thereby rejecting the militants' demand for independence. It is now expected that the Government will establish contacts with Mr Mann and other Sikh leaders to find a solution to the Punjab issue.

Although Congress Party leaders attended the conference, they dissociated themselves from the "consensus statement" because they were not a party to drafting it.

Egyptian minister survives attack

By Max Rodenbeck in Cairo

EGYPT'S tough and controversial Minister of the Interior, General Zaki Badr, survived an apparent assassination attempt when a car bomb exploded near his motorcade in Cairo on Saturday.

The primitive explosive device, in a Suzuki pick-up truck parked under a flyover, went off moments before the minister drove past. The blast caused little damage, and police caught a man fleeing the scene through a nearby cemetery. Identified as a 24-year-old medical student, Sherif Mahmoud, the man suffered severe burn wounds in the face, indicating that the effort was amateur.

Egypt's state security prosecutor launched an investigation yesterday to determine who planned the attack. Security officials in Cairo openly speculate that Moslem extremists were responsible.

Gen Badr has gained o reputation for ruthlessness in the campaign he has waged against fundamentalist dissent since he took office in May 1986. Making use of emergency laws passed in the wake of President Anwar Sadat's assassination in 1981, security forces bave detained thousands of Islamic militants. Egyptian police have drawn criticism for firing tear gas into mosques and allegedly torturing prisoners.

Although the Islamic trend has continued to make headway in professional and student organisations, activity by the militant fringe appeared to have declined in recent months. Last week, however, police arrested 325 protesters during unrest in the provincial city of Asyut, in which 40 people were injured.

Saturday's botched assassination was the most serious attack on an Egyptian official since 1987, when two former interior ministers survived attempts on their lives by Jihad extremists. The ministers had been accused of turning a blind eye to the use of torture. Tbe 61-year-old Gen Badr, who was driving to his morning tennis session when the bomb went off, appeared to be unfazed by the experience. Cairo newspapers yesterday pictured President Mnbarak congratulating the smiling minister on his survival.

Moderates gain in Iran elections

MODERATE Iranian politicians have scored gains in the country's latest round of by-elections, which have been seen as the first test of popular support for the reformist President Ali Akbar Hashemi Rafsanjani in his campaign to overhaul the economy, Reuter reports from Nicosia.

To the delight of the radicals, the fiercely anti-Western Ali Akbar Mohtashemi was returned to parliament for a Tehran seat, winning a valuable platform for his militant stance on both foreign and domestic issues.

But his victory appeared to be an isolated one. The election results suggested support was waning for the radical camp opposed to the market economy pursued by Mr Rafsanjani's government.

Mohammad Movahhedi Kermani, a moderate, received the highest number of votes to win one of the four Tehran constituencies, while a former agriculture minister, also an ally of Mr Rafsanjani, triumphed in the nearby city of Karaj.

Tensions high as gang fights break out in HK camp

By John Elliott in Hong Kong

MORE than 1,000 Vietnamese boat people were last night involved in gang battles in Hong Kong's high-security Whitehead detention centre, at a time when tensions are running high throughout the colony's boat people camps.

Battles break out frequently between different factions of boat people, but they are causing more concern following the mandatory return to Vietnam last Tuesday of 51 boat people, the start of Hong Kong's new and widely criticised hard-line policy.

Security officials were threatened when they tried to stop the fighting and searched the camp for weapons.

Meanwhile, government spokesmen last night firmly denied allegations that some of the 51 had been threatened by security staff last Tuesday morning and had been carried aboard the aircraft that flew them back to Hanoi.

The allegations were made in a BBC interview in the Vietnamese port city of Haiphong.

The allegations are important becanse Hanoi has stressed that it will refuse to accept any deported boat people who are physically forced on to aircraft bound for Vietnam.

● At the Vatican yesterday, the Pope criticised Hong Kong's forced repatriation; calling the decision of the British colony's Government grave, Reuter adds.

Speaking at his weekly blessing in St Peter's Square, the Pope, who rarely criticises government actions, said he was very concerned about the fate of thousands of Vietnamese refugees in Hong Kong.

"Our heart cannot remain insensitive and indifferent before such grave decisions whicb so dramatically affect the lives of many persons, including women and children," he said.

The Pontiff, who visited a refugee camp in Thailand in 1985, prayed that God would "enlighten the minds of those who control the fate of peoples." He said solutions to the complex refugee problem had to be "more respectful of the dignity of man."

He called on the international community to become more aware of its responsibility to solve what he called "such a grave humanitarian problem."

Hanging for currency offence

Sudan hanged Magdy Mahgoub, a member of a business and banking family, yesterday for breaking foreign currency regulations, despite appeals for clemency from the US, Reuter reports from Khartoum.

Military leader General Omar Hassan al-Bashir last week ratified death sentences on Mahgoub, convicted by a military court of illegal possession of foreign currency, and Said Ahmed Gaballah, an Egyptian convicted of possessing heroin.

Gysi seeks ties with Israel

East Germany's new Communist Party chief Gregor Gysi recommended yesterday that diplomatic relations should be established with Israel for the first time, Reuter reports from East Berlin.

Mr Gysi's comments, in a speech to an emergency Communist congress, followed a statement by Prime Minister Hans Modrow to the Israeli newspaper Haaretz that the East German government had already asked to establish ties.

Israel said it had not received the request but would take it seriously if East Germany shared responsibility for the Nazis' killing of 6m Jews.

Spanish credit

Spain has granted Morocco a long-term credit of Pta2.4bn (£13m), the official Moroccan news agency MAP said yesterday, Reuter reports from Rabat.

It said the credit, which carries low interest rates, was approved on Friday by the Spanish government.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Nov.'89	Oct.'89	Sept.'89	Nov.'88
W Germany 000's	2,026	2,004	2,001	2,187
%	7.9	7.8	7.8	8.5
US 000's	6,729	6,561	5,584	6,563
%	5.4	5.3	5.5	5.4
UK 000's	1,612	1,636	1,703	2,067
%	6.0	6.2	6.3	7.3
Belgium 000'e	347	350	353	374
%	9.9	10.0	10.2	10.7
	Oct.'89	Sept.'89	Aug.'89	Oct.'88
Japan	1,430	1,400	1,410	1,520
%	2.3	2.2	2.3	2.4
France 000's	2,599	2,588	2,517	2,654
%	11.0	11.0	10.7	11.3
Italy 000's	3,898	3,882	3,878	3,901
%	16.4	16.4	16.4	16.5
	Sept.'89	Aug.'89	July '89	Sept.'88
Netherlands 000's	381	394	392	417
%	6.5	6.8	6.7	7.1

Source: National data

ASSESSMENT OF WORLD DEBT, 1989-90

Bank praises performance record of Brady Initiative

By Stephen Fidler, Euromarkets Correspondent

IT SHOULD come as no surprise thet the World Bank, in its annual assessment of the international debt scene, World Debt Tables 1989-90, should describe the Brady Initiative as having got off to a good start.

Having committed $12bn of its own funds to the strategy, under which official resources will be used for the first time to finance methods of reducing the debt burdens of middle income countries, it would hardly say otherwise. Yet its World Debt Tables, published today, give a broad assessment of the Brady Initiative and point out areas in which it may be further developed.

Exactly a year ago, the same survey called for just such a strategy. Countries agreeing to economic reform should, on a case-by-case basis, be eligible for official support for programmes under which they would co-operate with creditors to reduce their bank debt.

The rationale was twofold: some countries' debt service burdens were so high that even with economic reform, the prospects for a return to growth were dim; second, a large debt overhang created adverse incentives which inhibited investment and led governments to view economic adjustment strategies as pointless. Since the strategy was adopted, three agreements have been negotiated though none has yet been finalised.

The Bank says that reaction to the Mexican agreement – probably the furthest advanced – shows that the benefits of debt and debt service rednction cen extend beyond their direct effects. The agreement resulted in a reduction in domestic interest rates as flight capital was repatriated, and an increase in foreign direct investment.

The case-by-case approach has also shown itself to be viable, it says. Mexico has focused on debt reduction instruments, while the Philippines has concentrated more on new loans. Costa Rica opted for an 80 per cent reduction of its bank debt. The common thread is that all three countries have adopted strong economic reforms, without which a reduction of debt service burdens would work only as a temporary palliative. "One of the benefits of the new debt initiative is that it increases the incentives for governments to adopt such policies."

It calculates the $30bn-$35bn in official resources available suggest that total debt service relief would amount to $6bn annually, a not insignificant 15 per cent of the debt service obligations of the severely-indebted middle income countries. It adds: "There is little reason to think official agencies would or should provide more money in support of the new debt initiative."

While conceding that banks may be unwilling to make new loans to highly-indebted countries, it suggests that debtor countries which allow foreign bank access to their financial markets and liberalise their financial systems "should be able to attract inflows of new funds for trade, project and private sector financing."

It concedes that other factors need to be in place for the strategy to succeed, including a favourable external environment which can be provided by industrialised countries.

"A two percentage point increase in international interest rates would completely wipe out the maximum amount of debt and debt service reduction that can be achieved under the new strategy, while leaving the borrowing countries with the additional debt burden of $30bn to $35bn resulting from loans in support of debt and debt service reductions."

The Bank also notes that regulators in some countries, notably Canada, France and the UK, oblige commercial banks to provide reserves against new loans to highly-indebted countries as soon as they are made. This inhibits the banks from extending such loans. It suggests more favourable regulatory treatment of fresh credits extended in connection with officially-supported financing programmes.

Finally, the publication calls for creditor governments to join in providing extra resources to support the Brady Initiative. Only the Japanese Ex-Im Bank has so far done so.

OTHER POINTS FROM THE WORLD DEBT TABLES

THE total debts of all developing countries are estimated to have risen modestly this year after a slight decline in 1988. The end-1989 figure is preliminarily estimated at $1,290bn, compared with $1,284bn a year ago and $1,292bn two years ago. At the end of next year, the figure is projected to be $1,319bn.

Transfer of resources from developing countries continues at unprecedented levels. Transfers from all developed countries totalled an estimated $51.6bn, against $52.0bn last year. Severely indebted middle-income countries transferred a record $31.7bn, against $31.3bn in 1988. The severely indebted low-income countries fared better, in receipt of a net $1bn against transfers of $500m against them last year. By the end of 1989, official creditors will account for 48 per cent of total developing country long-term debt, against 38 per cent in 1982.

Arrears of all developing countries to all creditors amounted to $52bn at the end of last year, up from $41bn a year earlier.

Concessional debt reschedulings in Africa under the Toronto terms yielded cash flow savings to 12 countries of a modest $50m this year. However, the benefits should grow over time.

The World Bank has coined still more acronyms and so redefined the status of a number of debtor countries.

They are SILICs (severely indebted low-income countries), SIMICs (severely indebted middle-income countries), MILICs (moderately indebted etc) and MIMICs. Colombia and Yugoslavia, two countries of the Baker 15 (defined in 1985 by Mr James Baker, then US Treasury Secretary, as middle-income debtors deserving special attention) and Jamaica, are now classified as MIMICs. Nigeria, another of the Baker 15, is now a SILIC. Hungary and Poland are both SIMICs, as based on recent data is Egypt.

Brussels to give Turkey polite brush-off

By David Buchan in Brussels

THE European Commission is today expected to give Turkey's two-year-old application for EC membership a polite but firm brush-off, with Brussels stressing the inappropriateness of the Community taking in any new members before 1992 as much as the specific political, economic and social gaps between Turkey and the EC.

The Commission was last night finalising its opinion on the membership application which Ankara lodged in April, 1987. It has been a foregone conclusion for some time that the Commission would recommend against opening entry negotiations with a country as poor, populous and with such different political, religious and social traditions from the Community as Turkey, at a time when the Twelve are trying to forge their single market and negotiate new steps into monetary union.

But there is equally a strong desire here not to give offence to the sensitive Turks, to whom EC rejection will appear a slap in the face. Re-drafting the precise wording of the rejection was still going on last night, with particular delicacy centred on Turkey's human rights record which has been frequently attacked in the European Parliament.

Indeed the Single European Act's requirement that the Parliament must approve any new EC members makes Turkish entry most unlikely for the foreseeable future, whatever the Commission and Council have to say.

EC and Efta go back to drawing board

Robert Taylor and David Buchan report on talks to forge a market of 320m people

THE PRIZE is great – a not too uncommon market of 320m people, comprising the 12 members of the European Community and the six members of the European Free Trade Association (Efta). Tomorrow the foreign ministers of these 18 countries meet in Brussels to give the green light to the start of negotiations aimed at forging what has been dubbed the European Economic Space (EES).

In the long run, this may provide one of the important means for redrawing the map of Europe with the eventual inclusion of eastern European countries in a new economic and political order. Yet, even as the meeting opens, it is clear that grasping at the basic prize of the EES will be hard for ministers on both sides of the bargaining table.

Efta officials say the timetable for the talks has already been drawn up for ministers to approve. It is planned that, during the next three months, senior civil servants of both organisations will conduct exploratory talks with the aim of achieving an outline agreement by the middle of next year, and concluding the negotiations with an agreed treaty between the two sides by the end of 1990. This would be ratified by the EC and Efta during the following year and, after a short transition, come into force in parallel with the completion of the EC's internal market on December 31, 1992.

Yet the European Commission is wary about such a tight deadline. Brussels officials say the bargaining with the Efta countries will be even more complicated than if the Six were applying for full Community membership. Entrants to the EC club have no choice but to accept the full menu of existing Community rules but, in this case, there will be much pulling and hauling between both sides as to which Community rules should apply to the 18-nation market and which should not.

Events outside, meanwhile, may well short-circuit this process. The impetus for change across Europe is now so strong that the rather tortuous and leisurely pace of the EC-Efta minuet could yet prove inadequate. Much will depend on what happens in eastern Europe during the next two years, and in the two Germanys. In recent months Efta has been contacted by the Soviet Union, Poland and Czechoslovakia, while Hungary is seeking a co-operation agreement with Efta, even showing interest in eventual membership of the organisation.

However, they want to utilise the limited resources of the Geneva-based organisation for their forthcoming talks with the EC, rather than divert their attention to the problems of eastern Europe. There is particular resentment among some Efta states that the free trade body should be regarded as an EC ante-room for the eastern European economies as they become more market-oriented.

They point out that they are advanced market economies with the same values as those of the EC and nothing in common with the eastern bloc.

Efta is also concerned that the impetus for the creation of a European Economic Space through negotiations with the EC will rate a much lower priority with Brussels, not only than the 1992 internal market, but also than the evolution of relations between the EC and eastern Europe.

Efta has come a long way in a short time but will have to move faster to keep up with other events in Europe

Brussels has long made it very clear that any agreement between the two blocs must not impede in any way the EC's own integration, nor involve any rewriting of the Treaty of Rome. There is also to be no possibility of Efta becoming a direct participant in the Brussels decision-making which is confined to EC member states.

The burden of concession thus falls lop-sidedly on the Efta side. Being in essence the *demandeurs* in the forthcoming negotiation, the Six will have to accept the Twelve's practices in meshing technical standards together, opening public procurement, cracking down on cartels and state aids, allowing free movement of workers, goods, services and capital, the Commission stressed last month.

No attempt would be made, however, by Brussels to foist the flawed Common Agricultural Policy (CAP) on Efta – nor would the EC seek to extend its common commercial policy, or its ambition to remove internal border checks, to Efta.

1992 THE EUROPEAN MARKET

Until now a rather loose trade confederation of six sovereign states, Efta has held together reasonably well over the past 12 months in working out the common response to Brussels urged on it last January by Mr Jacques Delors, EC Commission President. This is despite Austria's formal application last summer to join the EC and the hot and cold attitudes of the Swiss Government. The Nordic countries in particular are working closely together.

The rapidity of the EC's move to a free internal market has galvanised Efta into a much more activist role and forced it to seek a more coherent and collectively agreed position in its discussions with Brussels.

Creation of the single EC market has made the tariff-free access (since 1984) of its industrial goods less valuable, and potentially less competitive against Community insiders. Efta states more and more feel forced to follow Community rules without any say in the shaping of those rules. The political consequences, however, of having to go more than half-way to meet the EC are very serious for six countries – four of them neutral – very conscious of their sovereignty.

The fundamental problems that face the negotiators after tomorrow are:

- Just how Efta can exercise a direct influence over decisions that affect it in the proposed economic space.
- What kind of joint body will be needed to supervise the regulations that will cover the space:
- The nature of the joint legal institution responsible for upholding the laws that cover both the Efta and EC areas in the space.

As Efta said after its ministerial meeting in Geneva last week: "What is needed are institutions for co-operation which recognise that Efta countries and EC countries have common economic concerns but work under different political constraints."

The way Brussels describes it, the EC and Efta would form "two pillars", linked by an "osmotic" process of constant consultation, and equipped with one or more "common organ", such as a joint ministerial council and a special disputes tribunal, probably composed of the European Community's Luxembourg court and judges from Efta.

Differences also have to be ironed out next year over whether decisions taken in the economic space will be reached by consensus or by majority voting. While the EC has waived the need for unanimity in many areas, Efta still works by common agreement. This may have to change. Otherwise individual Efta states would be able to opt out of particular decisions in the economic space they dislike.

The Community's demand that any EES treaty take precedence over national legislation will probably prove possible for the Efta six to swallow, although they have not the experience of supranationalism that the Rome Treaty has given the Twelve.

The sticking point for them is far more likely to be the EC's insistence that, however big a hand the Efta states have in shaping Community decisions through consultation, they cannot share in the taking of these decisions, despite the loose words Mr Delors used about "common decision-making" last January.

Brussels officials say that, if the EC Council of Ministers were to wait for a common Efta view on policy issues, it would lay itself open to endless Efta lobbying of, say, former Efta members such as Denmark, Britain and Portugal, or of EC states with strong trade and cultural links to many Efta countries such as West Germany. Community integration would be fatally compromised, they say.

At present Efta states feel forced to follow EC rules without having a say in the shaping of those rules

Brussels, however, could not view failure to create the EES with equanimity. That is not just because it was Mr Jacques Delors, Commission president, who launched the current negotiations with his call last January for the EC and Efta to see if they could create "a new and more structured partnership with common decision-making and institutions" – the precise phrasing of which he now regrets. It is also because failure of the EES initiative could propel more Efta members than Austria into applying to enter the EC club, at a time when the Twelve want to limit their number.

In Sweden, the Efta route is not regarded as an end in itself but only a step in the direction of full EC membership. The two main employer organisations have come out in favour of Sweden joining the EC, as have the country's two main opposition parties, the Moderates and the Liberals. They feel the eventual Efta-EC agreement will be too limited and believe events in the rest of Europe are making the whole process look obsolete. There is a similar feeling growing in Norway.

By contrast Switzerland has had to make the most drastic adjustment to its EC strategy since Mr Delors told the Six to negotiate as one body. Before then, the Swiss had gone it alone as far as possible, trying to create bilateral deals with Brussels. They had been achieving some success, as in a recent deal over reciprocal establishment rights for insurance companies.

The decision-making issue threatens to subvert Swiss federalism and direct democracy. It is difficult enough to see how EES decisions can be subjected to Swiss national referendums. Whatever compromise is reached, it will impinge on the broad powers of the Swiss cantonal governments.

When accused recently of not disclosing the full import of the Efta-EC negotiations, President Jean-Pascal Delamuraz admitted that the federal government had kept quiet because it did not want prematurely to raise "excessive alarm".

There is, in general, a danger in seeing the EC-Efta process purely in economic terms and minimising the political significance as far as possible.

Given the flux of events in eastern Europe these days, this no longer looks feasible. Other external developments could soon reshape the negotiations next year, especially if the so-called Helsinki process were to gather pace, bringing nearly all European countries into broad discussions on subjects beyond economics. Efta has come a long way in a short time, in the face of EC pressure, but it will have to move much more rapidly next year if it hopes to keep up with the momentum which is redrawing the European map.

Additional reporting by William Dullforce in Geneva.

North-South divide slows 'arms market'

By David White, Defence Correspondent

PROGRESS towards a Defence 1992 – a common market in arms among European members of Nato – has fallen behind schedule in the initial stages and is becoming bogged down in a North-South divide.

Defence ministers from the 13 European allies belonging to the Independent European Programme Gronp (IEPG) launched an "action plan" late last year to encourage cross-border competition in military goods. The centrepiece of this was a UK-inspired plan for all countries to make information abont bidding opportunities available to the others.

Britain and France were already publishing monthly "contracts bulletins" listing projects open to tender, and the aim agreed by IEPG ministers was that the others should be doing the same by the end of this year. But so far, no other country has done so, and only three – Italy, Norway and Belgium – are known to have taken preliminary steps in this direction.

In the meantime, an administrative secretariat for the IEPG, previously organised by an official at the UK's Nato delegation in Brussels as part of his duties, has been set up in Lisbon but is unable to fulfil its job of centralising data.

The secretariat, with five executive officers, is headed by a Spaniard, Mr Juan José Chao. However, the Spanish Government is the one that has taken the most cautious line about moves to promote all-out competition.

Madrid is pressing for firmer guarantees of reciprocity in a more open arms market. Last year's Action Plan acknowledged that "some kind" of *juste retour* – ensuring export markets in exchange for imports – had to be arranged as a means of gaining all members' support for cross-border competition. But British officials say this will be hard to implement.

Compiling reliable information on defence trade flows is itself complicated by discrepancies between national data and definitions of product groups.

The *juste retour* principle has also raised some eyebrows at the European Commission, although the Commission is generally supportive of the IEPG initiative. The IEPG overlaps with the Community, comprising all EC countries except Ireland, with the addition of Norway and Turkey.

Arms production and trade were excluded under the Treaty of Rome from the scope of European Community policies, but the Single European Act of 1986 pledged EC members to closer co-operation in defence issues.

Britain, which currently chairs the IEPG, is hoping for more visible progress on the Action Plan before the next ministerial meeting, at Gleneagles in Britain in February. At their last meeting in June, ministers re-phrased their target for publication of contract opportunities, aiming instead for "the turn of the year". UK officials say that, if half the members are complying by Easter, the result will be "quite good".

However, a clear split is opening between the northern and southern countries, except Italy. The Action Plan foresaw the possibility of special transition periods for the three countries with "less-developed defence industries" – Greece, Turkey and Portugal. They and Spain remain concerned about the possible impact of opening their procurement markets to the Community's more powerful arms producers.

EC research budget confined to £4bn

By Lucy Kellaway in Brussels

THE EC has set a research budget for the next five years of Ecu5.7bn (£4.2bn), in defiance of the Commission's plans for bigger expenditure.

The budget, which will run from 1990 to 1994 is a modest increase over the Ecu5.4bn in the present programme, and well below the Ecu7.7bn suggested by the Commission.

Ministers had been under instruction from heads of government to reach agreement on research, which had been one of the items singled out at this month's Strasbourg summit for urgent resolution.

Most member states felt that the Ecu7.7bn suggested by the Commission was not justified by its proposals for spending the money, which they argued did not present much of a departure over existing plans. Some countries were noticeably more willing than others to increase the research budget, with France and Italy prepared to agree to the Commissions plans, while the UK, the Netherlands and Spain were hoping for less.

There was also considerable disagreement on the allocation of the funds, but resolving the demands of all 12 member states proved so difficult that the Commission's original breakdown was in the end adopted. Most of the money will continue to go to information and communications technologies, although there will be more money than before for environmental research.

The new plan will be simpler and more flexible than the old, with 15 different categories of research replacing the 37 in the existing programme. The Commission had originally suggested that six categories of research would be enough, but member states had been concerned that this would have given the Commission too much power over how the money would be spent.

Although the budget will run for five years, negotiations on a new budget will almost certainly begin earlier – giving the Commission a chance to draw the extra Ecu2bn back into its plans.

UK NEWS

Labour aligns union code with EC Social Charter

By Philip Stephens, Political Editor

THE LABOUR Party leadership yesterday unveiled a further radical shift in its approach to the trades unions and employment law by announcing that it was abandoning its support for the pre-entry closed shop.

Under the pre-entry closed shop system workers have to be a member of a trades union before being accepted for employment.

The move, which is expected to anger MPs and trades unionists on the left of the party, was announced by Mr Tony Blair, Labour's employment spokesman, in a carefully-drafted statement to his own Sedgefeld constutuency party.

It has the full backing of Mr Neil Kinnock, the Labour leader, and has been discussed *in advance with the leaders of* the main unions in at attempt to minimise the opposition.

There were signs yesterday that unions are likely to fall in line with a shift in Labour's policies. Leaders of the Trades Union Congress have already started a review of the implications of TUC support for the social charter.

Mr Ron Todd, general secretary of the TGWU transport union, said he believed that unions could not support parts of the Social Charter while rejecting others. "Wa cannot just treat it like a curate's egg," *he said.*

Tony Blair

Mr Blair's statement, which brings the party's policy into line with its strong support for the European Community's Social Charter, comes ahead of the publication of this week of a Government bill which will outlaw the closed shop.

It will be seen at Westminister as at attempt to minimise the Government's scope to embarass Labour over the provisions in the Charter guaranteeing individuals the right not to join a union.

More broadly, the policy shift indicates that Mr Blair - a close ally of Mr Kinnock - is determined to blunt the Government's criticism that despite the changes of the past two years its present approach to employment law has left it "in hock to the trades unions".

Mr Blair insisted that his statement was firmly in line with the principles established early this year in the party's policy review. The aim was to create an "even-handed" rather than a "one-sided" approach to industrial relations.

Labour's strategy would be based not on favouring either employers of trades unions but *on a recognition of the rights* of the individual. It would see the role of unions as one of *advancing the interests of individuals.*

That meant that Britain, like its European Community partners, should enshrine in law the right to join a trades union and provide protection from dismissal for lawful strikers.

He signalled the prospect of further policy changes by stating that the "rights of employees cannot be the only determinant of industrial relations law".

Leader, Page 16

Strike laws in UK 'tougher' than most within Community

By Fiona Thompson, Labour Staff

LEGISLATION covering strikes in the UK is more restrictive than that of most other states in the European Community, according to a study published today.

The survey by the Labour Research Department, the independent union-funded research group, compares the extent of the freedom to strike in the UK with the position in the other 11 EC states.

It contrasts the laws regulating strikes, lockouts, occupations, sympathy action and strikes in essential services, and looks at the impact of strikes on the employment contract.

The survey concludes that UK workers taking strike action are in a much weaker position regarding legislation than workers in other states.

For example, the UK is one of only three states which fails to offer statutory or constitutional guarantees for the right to strike. Denmark and Ireland are the other exceptions.

Similarly, only these three states presume that contracts of employment are broken by strike action. In all other nine states, the contract is suspended.

In general, employers' lockouts do not enjoy the same protection as strikes, the survey says. However, the UK is one of only two states, with Ireland, which does not place greater limits on the employers in this instance's right to lockout, compared with the employees' right to strike.

The level of strike activity varies from one EC country to another. The study says that the most up-to-date comparable figures show that Spain, Italy, Ireland and Greece have all recently experienced higher strike levels than those in the UK. Although the figures vary slightly from year to year, the pattern remains similar.

The figures illustrate that, despite sometimes significant legal constraints, in other countries as well as the UK, workers still take industrial action.

Therefore, despite the severity of the union legislation introduced in the UK during the past decade, UK strike figures still remain significant.

Bargaining Report No 90; Labour Research Department, 78 Blackfriars Road, London SE1 8HF.

BAe shift workers signal first crack in engineering campaign

By John Gapper, Labour Editor

THE FIRST sign of a crack in the strika campaign for a shorter working week in the engineering industry emerged yesterday when some manual workers at British Aerospace's Preston plant returned to work on the first shift of the week.

BAe said that 70 out of about 95 skilled workers in the machining section of the plant had reported for work for the first time in seven weeks after it offered to pay three weeks' wages to those breaking the strike.

The return to work follows a BAe offer to negotiate a 37-hour working week at its strike-hit plants at Preston, Chester and Kingston-upon-Thames in return for productivity improvements provided that strikes were ended.

The BAe return to work is the first significant setback for the engineering unions' campaign, which has won reduced hours at NEI-Parsons in Newcastle upon Tyne, Smiths' Industries and Cheltenham and Rolls-Royce at Hillington, Glasgow.

Employees at Hillington will return to work with national union backing this morning after they overturned their earlier rejection of a 37-hour week deal in return for productivity improvements at a mass meeting on Saturday.

The strength of the strike at the BAe Preston plant will be tested this morning when the main shifts at the plant are due to report for work. About 2,500 workers have been on strike at Preston, out of the 4,500 employed at the plant.

BAe said it had offered to pay three weeks' wages to those resuming work this week, including payment in full for a two-week plant shutdown for the Christmas and New Year period.

But it said it had not been given any warning that the machining section workers - mostly skilled members of the AEU engineering union - would be resuming work. It said the action appeared to be spontaneous.

The Confederation of Shipbuilding and Engineering Unions, which is organising the campaign, said it believed the workers involved were among the highest paid in the plant, and most likely to find reduced strike pay inadequate.

Last Monday, the Confederation reduced strike pay from about £150 a week including individual union contributions to some £85. The move was made because of pressure on the central strike fund and the expectation of a prolonged BAe dispute.

EMPLOYERS' MONTHLY TRENDS REPORT

Recovery in export demand

By Terry Byland

A RECOVERY in export demand for the products of British manufacturing industry is reported in the latest monthly survey of industrial trends carried out by the Confederation of British Industry, the employers' organisation.

The report lends support to UK Government hopes that demand from overseas for British goods will help counterbalance the setback to homa demand prompted by high interest rates in the UK.

Some 19 per cent of firms rate their export orders "above normal", and 26 per cent "below normal". The minus 7 per cent differential halves the trend figure for the previous month and is broadly similar to the position a year ago, says the CBI.

Tha report, covering the period November 14 to December 13, offers little consolation on domestic demand, which it describes as "very sluggish", although it says the proportion of UK firms expecting to introduce price increases last month was the lowest for two years.

Mr David Wigglesworth, chairman of the CBI's Economic Situation Committee said that the restriction on ability to introduce price increases in home markets, while good news on the inflationary front, "clearly affects the prospects for investment next year."

The CBI survey covers nearly 1,400 firms which are responsible for about half the exports and employment of British manufacturing industry. On prospects for growth in output in UK manufacturing industry, the report shows no sign yet of a recovery of confidence among CBI members. Those responding to the survey expect hardly any increase in output volumes over the next four months, views following in the wake of an earlier report which showed that CBI members were looking for only low output growth until the end of 1991.

Flights resume at Manchester Airport

FLIGHTS resnmed at Manchester Airport yesterday after firemen crossed picket lines of striking baggage handlers and provided the safety cover needed for passenger operations, writes Ian Hamilton Fazey, Northern Correspondent.

Volunteers from the airport and airline management turned out to load and unload baggage and catering supplies, while British Airways, Air Europe, and Britannia immediately flew in empty aircraft to restart normal services.

The airport management said last night that volunteers' baggage handling rosters would be fully operational by today and that the airport should be almost back to normal by tonight.

The handlers stopped work on December 1 in a dispute over new shift patterns. Management kept the airport open until last Monday, when firemen in the Transport and General Workers Union - the same as the handlers - decided not to pass the pickets.

The strike's continuation will be decided by a mass meeting of the handlers today.

Polaroid health campaign cuts absenteeism

By Our Labour Editor

POLAROID, the US-owned photographic manufacturer, has cut absenteeism at its plant near Dumbarton, Strathclyde, Scotland, by introducing a workplace health campaign allied with stronger monitoring of the reasons for absence.

The company's health promotion campaign, aimed mainly at reducing heart disease, has now been adopted as the model for a local community health programme jointly funded by the company and public bodies.

Although screening and health campaigns for employees are becoming more common, the Polaroid initiative is unusual in attracting public funding from the Urban Aid programme and the Scottish Health Education Group.

The health campaign has concentrated on measures such as reducing blood cholesterol levels. A new policy on smoking, bringing in no-smoking areas, is to be fully introduced in March.

The company says the two initiatives have helped to cut absenteeism from 6.3 per cent in 1983 to 3.7 per cent for the 10 months to October this year. Polaroid estimates that the reduction has saved it about £113,000 a year on average since 1986. It also believes the health promotion campaign has improved employee motivation and its image.

All-out strike in ambulance dispute urged

By Our Labour Staff

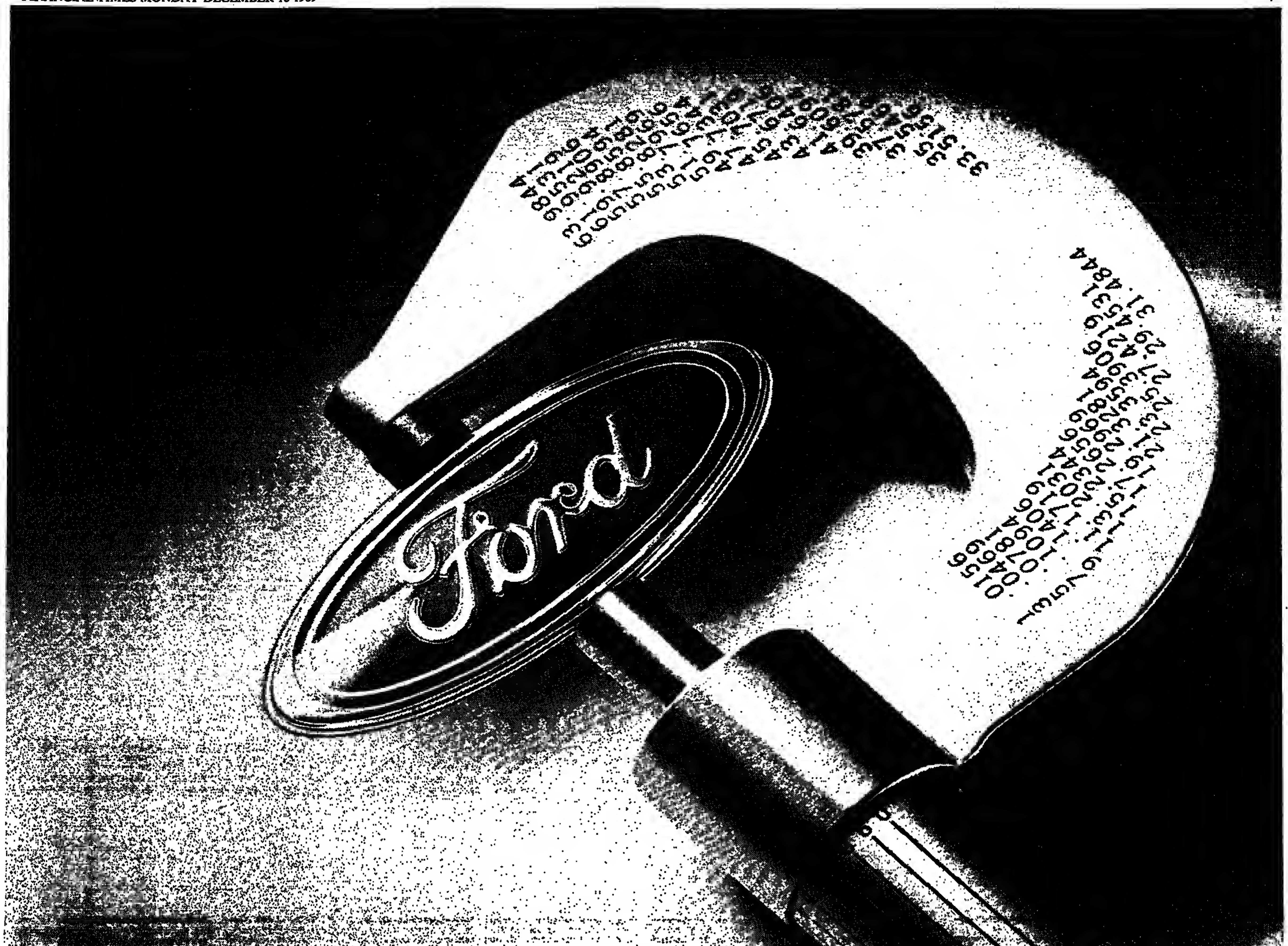
CALLS for an all-out strike by ambulance crews were made yesterday by local union officials as the dispute entered its 14th week, indicating growing pressure on union leaders to step up action.

At the same time, a group of Conservative MPs urged the Government to offer a compromise to end the dispute. In the proposal, ambulance workers would be given a pay review body in return for accepting the 6.5 per cent pay offer.

Mr Roger Poole, the unions' chief negotiator, rejected strike calls by members of his union, the National Union of Public Employees. He said he believed the calls arose out of frustration, but tactics would remain the same.

Ambulance services have been disrupted in many regions. On Friday night, troops were called in to take over emergency services in Birmingham and Dorset, while London crews started refusing to take calls from controllers.

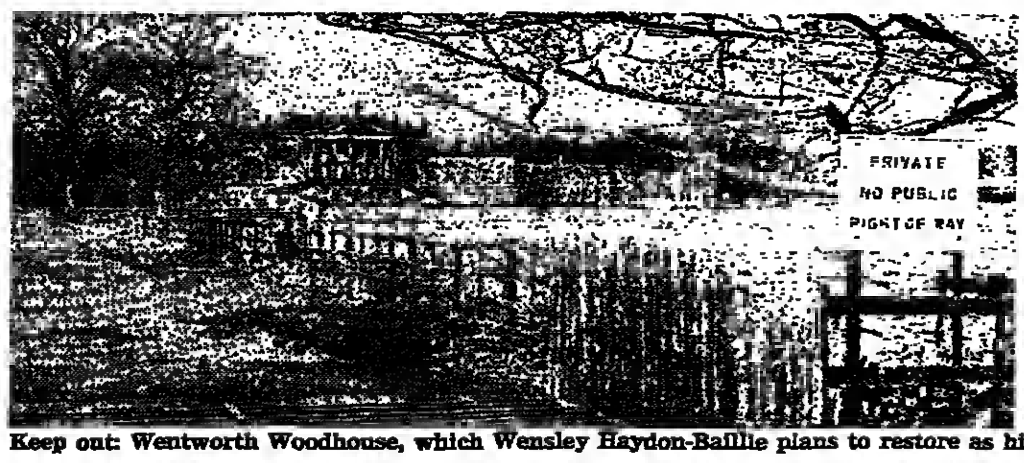
Mr Sidney Spence, a Nupe official on the unions' national disputes committee, said a strike in the new year was likely. Meanwhile, Mr Jerry Hayes, Conservative MP, said he would ask Mr Kenneth Clarke, Health Secretary, to accept the need for a pay review body for ambulance workers in return for a settlement of the dispute.

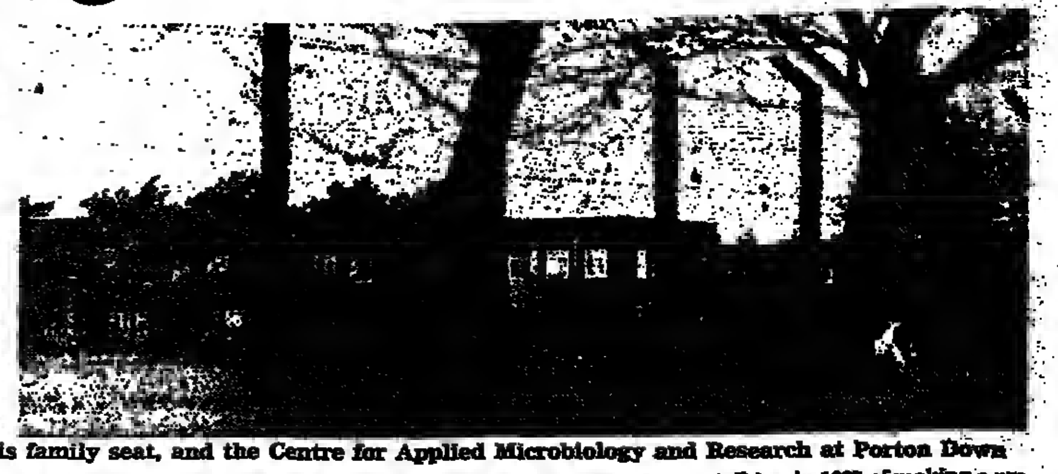


UK NEWS

Peter Pan of pharmaceuticals is high flier in its field

Peter Marsh and Richard Donkin report on the rise of Porton and profile Wensley Haydon-Baillie, its dynamic but shy chairman





Keep out: Wentworth Woodhouse, which Wensley Haydon-Baillie plans to restore as his family seat, and the Centre for Applied Microbiology and Research at Porton Down

MR Wensley Haydon-Baillie rules over two large country estates, a collection of exotic cars, aircraft and boats – and a fledgling pharmaceutical company backed by an unusually large sum of money.

He has secured a remarkable deal with the Government on the commercialisation of inventions from a key research establishment and has one of the most illustrious addresses in London with a personal fortune to match.

Mr Haydon-Baillie has the manner of a country squire and is capable of displaying great charm. He has also emerged as the only clear winner so far in what has turned out to be a mighty gamble for many of Britain's largest financial institutions – and for the Government.

Porton International, his private biotechnology company, has become the Peter Pan of pharmaceuticals, floating high above the other start-up companies in the same field.

Investors have ploughed £76m into Porton over the past seven years and, while they were given new heart recently by the announcement of two small acquisitions in the UK and the US, they are unlikely to discover before the spring whether hacking what has already proved to be an over-optimistic venture is likely finally to pay off.

Mr Haydon-Baillie, 46, owns a third of Porton and is its chairman. In a planning document for investors in 1985, the company indicated that by this year it would be earning a pre-tax profit of £128m, £77m of which would come from a new herpes drug.

Profits, however, have not even kept pace with what the institutions could have earned if they had put their money in a Post Office savings account.

Along the way, Mr Haydon-Baillie has made large sums of money from Porton, including a share transaction which brought him £24m.

His decision in 1986 to sell some of his shares in Porton was described as "unbelievable" by Mr Derek Layton, Porton's former joint chief executive, who resigned last year after a disagreement.

Mr Haydon-Baillie, who is also chairman of Optical & Medical, a publicly quoted electronics company, has been unavailable for comment for several months.

In an interview a year ago, he said he was sure of Porton's long-term success. He was confident it would grow as big as Glaxo, Britain's largest pharmaceuticals group.

The Government is involved in the Porton story because in 1985 Mr Haydon-Baillie persuaded Mr Kenneth Clarke, then Health Minister, to grant him a potentially lucrative licence regarding an important research institution.

Under the agreement, Mr Clarke, who is now Health Secretary, authorised Porton to commercialise inventions from the Centre for Applied Microbiology and Research (CAMR) at Porton Down in Wiltshire.

Porton reached that agreement with Mr Clarke in the face of rival bids from established UK pharmaceutical companies – in particular from Wellcome and Beecham – that had also expressed interest in reaching a formal accord related to CAMR. The deal with the Government impressed Porton's future investors and played a big part in persuading them to put further sums of money into the company.

As part of the accord, Porton agreed to pay for a new fermentation unit at the centre at an estimated cost of £20m. Mr Clarke thought that was a way of introducing private money to the laboratory and boosting its commercial performance.

In the event, the unit has not been built, although the Health Department says that discussions about construction are still taking place.

Lord Glenarthur, a former parliamentary under-secretary at the Health Department, was closely involved in the negotiations with Porton. He said that the building of the unit was a fundamental part of the deal and he was surprised it had not gone ahead.

Both he and Mr Clarke had examined Porton's proposals thoroughly, said Lord Glenarthur, who left the Government in the summer. "There was no favouritism. It [giving the licence to Porton] was a risk, but we took a lot of care."

Lord Glenarthur, who now works for Hanson, the industrial holding company, said: "Mr Haydon-Baillie rang me up out of the blue to talk about CAMR. He was very thorough and persistent."

There is a further twist in the Porton saga related to Whitehall because Mr Clarke is now considering outright privatisation of CAMR – with Porton being canvassed as one possible purchaser of the laboratory.

Mr Clarke has received consultants' reports on the issue from PA, the management consultants, and Shearson Lehman Hutton, the US bank. He has indicated that he is going to decide about the matter before Christmas.

The Porton story also raises issues related to the financial institutions that put up the £76m equity for the company. The list of Porton's shareholders reads like a roll call of Britain's most powerful financial institutions.

It includes Legal and General, Lloyds Bank, Equity and Law, Sun Alliance, Robert Fleming, General Accident, Hill Samuel, Kleinwort Benson, Sun Life, Standard Life, National Provident and the pension funds of ICI, National Westminster, British Telecom and the Post Office.

Most of those groups were won over after Mr Haydon-Baillie made personal presentations to directors emphasising the promise of his new company.

The institutions now take a mixed view about their investments. Some are not particularly worried that plans have slipped behind schedule and say they still have high hopes for the company. Others say they are seriously concerned.

Some of the shareholders have drawn attention to several features about Porton that are unusual for a company in pharmaceuticals in an early stage of development.

● The large amount of equity capital is substantially higher than any other sum raised privately in start-up funding for a fledgling pharmaceutical company in either the US or the UK. In the US in particular, financial institutions almost always hand out their cash to new companies in the field in small amounts related to specific needs.

● The practice of paying a dividend, which Porton has done for the past four years, is not normal in the risky business of pharmaceuticals at the early stages of growth. For the past three years the after-tax profits of Porton have been about £4m.

Mr Haydon-Baillie himself, by dint of his personal shareholding, has collected some £500,000 a year in dividend payments over the period in addition to his annual salary of of about £100,000.

● Up to the end of last year, Porton had spent only about a third of the £76m capital and had cash deposits of £50m. Interest on those last year came to £5.2m, accounting for virtually all the pre-tax profit and making possible the payment of a dividend.

● Porton does not include development expenditure in its profit-and-loss account. If it did, the company would be running at a loss. Instead, the figure, which came to £7.9m last year, is included in the accounts under intangible assets. The practice of capitalising development expenditure for a company such as Porton is considered unusual in the pharmaceutical industry and in the accountancy profession.

Buttressed by the deal involving CAMR, Porton was talking in 1985 of making a pre-tax profit of £128m for 1989. The figure is, however, likely to be about £6m. Last year the company showed a taxable profit of £5.2m on sales of £13.7m.

Porton, however, is still confident of making progress with its star product, a medicine for treating herpes that was partly developed at CAMR and has raised the hopes of many of the investors.

The results of two years of trials in the US on the medicine, which Porton says could be used both as a vaccine and a therapeutic agent, should be ready by early next year. That is more than two years later than the company was forecasting in 1987.

The Porton product – or the Skinner vaccine as it is often referred to in the drugs industry – is known to many observers of the business. American Cyanamid and Wellcome are among the medicines companies that have looked at the product and decided not to develop it.

Mr Haydon-Baillie has defended the company's dividend policy, saying it is important to establish a dividend record because that should help in the run-up to a public listing – something that the company may seek within the next few years.

The practice is by no means universally supported. One industry observer said: "When a company is in the development stage, most shareholders do not expect to take money out – you expect this to happen later on when the company has become established."

Mr Haydon-Baillie has said that the practice of capitalising development spending is justified because it gives a better view of the company's assets. He has defended his decision to sell part of his shareholding as providing an opportunity for financial backers to buy into the company.

Some of Porton's shareholders have privately expressed concern over the company's approach regarding dividend payments and the subsequent enriching of Mr Haydon-Baillie. Most investors, however, appear content to sit tight in the hope that the promised pay-off will one day arrive.

Wensley Haydon-Baillie: "a bit paranoid about the press"

Brisk but bashful businessman

MR WENSLEY Haydon-Baillie is known in the City as a workaholic with a string of top-level connections among UK establishment figures.

His reputation for courtesy and charm while pursuing a vigorous social and business life belies a shy side to his nature demonstrated by the great lengths to which he goes to shelter from the media.

Lord Montagu of Beaulieu, one of his friends, describes him as "one of the most dynamic people I know" who is "a bit paranoid about the press."

The reason for such public reserve is unclear since, if anything, Mr Haydon-Baillie is a man who has adopted a philanthropic profile.

He has not only established the International Maritime Institute, an organisation dedicated to oceanic research, but has determined to restore one of the nation's great stately homes as his family seat.

The institute is based with his private museum at a Southampton dock basin where he keeps his collection of historic aircraft and naval fast patrol boats, including Brave Challenger.

In March this year, Mr Haydon-Baillie acquired the 17th century seat of the Marquess of Rockingham, Wentworth Woodhouse, near Rotherham in South Yorkshire. With its 606-foot façade and more than 300 rooms, it is reputedly the largest stately home in the country.

Just how much he paid has never been disclosed, but he announced at the time that he had set up an endowment trust to provide for its restoration.

A surgeon's son from Worksop in Nottinghamshire, Mr Haydon-Baillie read economics at Exeter University, graduating with a third-class honours degree.

His real success started after a two-year spell at Slater Walker, the merchant bank that collapsed in the early 1970s. He was left in possession of enough capital to secure a controlling interest with his partner Mr Anthony Gover, a Cambridge law graduate and chartered accountant, in Watsham's, a publicly quoted electrical engineering and contracting company.

The group had just got back into profits after a series of dull performances in the late 1960s. Under their control the company gained a high-tech image and earnings multiples to match. It specialised in optical equipment with military applications, distribution of medical equipment and compiling technical manuals.

The company was renamed Optical & Medical in 1987 and in its last accounts, published earlier this year, had lifted pre-tax profits for the year to the end of March from £5.1m to £7.03m on sales of £55.56m.

The undisputed success of Optical & Medical gave Mr Haydon-Baillie and Mr Gover a record among City institutions, especially those which had prospered out of the substantial rise in Optical & Medical share values.

At the time Porton International was set up, the biotechnology business – especially in the US – was populated by many small, exciting companies, full of optimism and with the potential of high returns for anyone bold enough to invest. That was an important factor in helping Mr Haydon-Baillie to raise money from respected institutions.

Other factors were his tactics of going to the top among potential investors, emphasising the potential of the deal with the Centre for Applied Microbiology and Research and surrounding himself with the best expertise he could find. He recruited Mr John Burke, a highly respected ex-Glaxo director, in 1988 to act as Porton's chief operating officer. Porton's accounts indicate that he was paid £270,000 last year for eight months' work.

Recently he attracted Lord Chilver, the chairman of English China Clays and former head of Cranfield Institute of Technology, to Porton's board as the company's single non-executive director.

His desire to surround himself with the best people extends to his other affairs. He has a working association in the aeronautics field with Mr Brian Trubshaw, the former chief Concorde test pilot.

Lord Montagu, who is a near neighbour to Mr Haydon-Baillie's Hampshire home, says that the restoration of Wentworth Woodhouse has become his friend's current passion. At present the house looks rather bleak, wedged as it is in a tract of countryside between the industrial centres of Barnsley, Rotherham and Sheffield.

Much of the estate is used as a deer park. Visitors are not welcome. A sign by a footpath that runs across the estate says: "Beware of the bull."

Air security satisfactory, Parkinson says

By Ralph Atkins

FURTHER steps to tighten security at British airports were unnecessary in spite of a warning from the US of a possible terrorist attack, Mr Cecil Parkinson, Transport Secretary, said yesterday.

The State Department's warning, issued on Friday, was "just an argument for enforcing existing security rigorously," Mr Parkinson said.

Security at airports was tighter than a year ago, he believed, but added, "we can never be satisfied."

He was speaking at the start of a week that marks the first anniversary of the Lockerbie disaster, which left 270 dead after Pan Am flight 103 was destroyed by a terrorist bomb.

"We feel that our level of security at present . . . is satisfactory for the perceived threat to us," he said.

Mr Parkinson told BBC Radio that the US warning of attacks on Americans in Western Europe and West Africa had not been interpreted by the Federal Aviation Authority as justifying extra security. He pointed out that the warning was aimed largely at US embassy staff.

"The FAA quite clearly doesn't think that any practical additional steps should be taken on aviation. We share their view," he said.

The bill on air security published by the Government last week would give inspectors "very specific, immediate power" to ensure strict security directives were carried out.

Store cards reviving, survey says

By David Barchard

STORE CARDS issued by large retailers are growing in importance as a competitive weapon against other retailers and banks, according to a report published today.

Although store cards are unpopular because most charge much higher rates of interest than cards issued by the clearing banks on the Visa and MasterCard networks, the report says that they are now reviving after a period of decline, with much of the overall growth coming from Marks and Spencer's store card. There has been a rapid increase in the average number of cards held by individuals.

Mr Terry Burke, the author, says store cards are particularly important in creating loyal customer bases and helping retailers to build up detailed knowledge of market conditions with customer databases collected via the cards.

He quotes leading retailers as saying that retailers' cards are only in their infancy as tools for building databases of commercial information for their issuers. "Retail cards yield market information that can be used to improve store location, store capacity, and store layout decisions," he writes.

According to leading British retailers quoted by Mr Burke, database information from cards can be used when taking decisions as to whether a new store should be sited on the edge of a town, or which types of merchandise to set beside each other.

Database information also enables retailers to target customers more precisely when sending out mail shots and to reduce the irritation of mailing operations providing irrelevant information.

Retailer Plastic, by Terry Burke. Faculty of Business, Polytechnic of Central London, 32-38 Wells Street, London W1P 3FG. £3.50

Farm institute to centre research in Aberystwyth

By Anthony Moreton, Welsh Correspondent

THE Agricultural and Food Research Council is to centralise all its research work on poultry and grassland in Aberystwyth, Dyfed.

The move is part of e change of responsibilitiee within the council thet will see all the work of the Institute for Grassland and Environmental Research centralised in the town,
and is expected to create about 60 jobs.

The news was welcomed by Mr Peter Walker, Secretary of State for Wales, who said: "Some 60 per cent of the UK livestock production is in Wales and the western counties of England, and to base the new institute in the heart of that area makes sense."

It was also greeted by Mr Glyn Davies, chairman of the Development Board for Rural Wales, who said the move "significantly strengthens" the scientific base of Aberystwyth, a university town, and would provide a new impetus for the economy of the area.

"The new institute will make Aberystwyth a worldwide centre of excellence for grassland and environmental research."

Aberystwyth is already home for the Plant Breeding Centre and the Experimental Husbandry Farm, which will both transfer to the new institute.

RAC calls conference on London traffic proposals

THE RAC, the motoring organisation, has invited representatives of all road users, including cyclists and pedestrians, to a conference to discuss proposals being considered by the Government for easing London's traffic congestion.

Mr David Worskett, public affairs director of the RAC, said: "These are radical measures and they will affect everyone in London. We are rushing through arrangements for this conference because of the need to contribute quickly to the consultation process."

The plans put forward by consultants involve road and public transport investment, a 300-mile network of "red routes" on which parking would he hanned, stricter enforcement and tougher penalties for illegal parking.

A report on the conference will be given to Mr Cecil Parkinson, the Transport Secretary, who is due to decide on the proposals in March.

Trail of devastation after storms batter country

HURRICANE force winds of up to 115 miles per hour and torrential rain battered Britain at the weekend, leaving a trail of devastation in their wake.

Hope faded last night for six fishermen after the wreck of their missing boat was found.

Police divers found the 35-foot prawn boat Destiny on the bottom of the Firth of Clyde, Scotland, a quarter of a mile off Gourock pier. The coastguard said it was too risky for the divers to enter the wreck and the sea search for those on board was called off as the weather worsened.

The Destiny was lost in heavy seas and driving snow on Saturday as it tried to return to Greenock from a fishing trip to Holy Loch six miles away.

Devon and Cornwall perhaps suffered the hardest from the storms, with scores of incidents reported.

In Plymouth, Devon, the business community estimated that the cost of damage from the worst flooding in years could be more than £250,000. In the harbour, the Falklands museum ship HMS Plymouth broke free from part of her moorings and was holed, causing thousands of pounds of damage.

A car park surface in the Cornish village of Mousehole was washed away by the sea, and at Tolcune Bridge in Devon a volunteer had a lucky escape when he was washed away while helping to shore up sea defences.

In the Scilly Isles and along the south-west coast, dozens of boats were swept from their moorings or overturned, and the lighthouse at the entrance to St Mary's Harbour on the Scilly Isles was washed away.

At the storm's height, two Royal Navy helicopter crews braved tumultuous seas and storm force 11 winds to lift 21 people to safety from a drifting Spanish cargo ship in the Bay of Biscay that had lost its steering gear.

A search was continuing for the skipper of an Irish coaster, the Arklow Victor, which sank in the Bay of Biscay after a French helicopter rescued the five other crewmen.

Another seriously affected area was Lymington, Hampshire, parts of which were flooded by five feet of water as the sea surged in.

In Wales, 10 people were rescued from the roof of a flooded pub at Newgale, Dyfed, by an RAF helicopter. A policeman had to swim to safety after his patrol car was washed away on the seafront as he went to help flood victims.

Mopping up continued in Northern Ireland after 24 hours of torrential rain.

Many parts of the province were under water for several hours, with County Down the worst affected.

In Holywood, the Strand area of the town was under six feet of water at one stage and residents had to be moved from their homes.

Elsewhere in Ireland, the storm tore a 120 ft hole in the sea wall at the fishing port of Kilmore Quay, County Wexford, damaging dozens of vessels.

Pension performance criteria studied

By Eric Short, Pensions Correspondent

DETAILED investigation into the measurement of investment performance by pension funds is being undertaken by the National Association of Pension Funds, the body representing occupational pension schemes and associated organisations.

Advance notice of the investigation was given some months ago by Mr Donald Brydon, chairman of the association's investment committee and chief executive of Barclays de Zoete Wedd Investment Management.

The association has now given details of the composition of the investigating committee and its terms of reference.

Measurement of the investment performance of institutional funds – particularly pension funds and charities – based on sophisticated statistical and mathematical techniques has now become a large industry on both sides of the Atlantic.

However, there has also been growing concern about the use and relevance of the various performance statistics now available to trustees, fund managers, consultants and investors. Establishment of the inquiry reflects that concern.

The terms of reference of the committee of inquiry are set in three parts – the technical construction of the performance statistics, the presentation of the results and the use made of these results by trustees, fund managers and consultants.

The inquiry is chaired by Mr Maurice Stonefrost, chief executive of British Rail Pensions Fund and formerly director-general and clerk to the Greater London Council, prior to its abolition.

The association has deliberately chosen the composition of the committee so as to represent the users of performance measurement services.

The practitioners in the field will be some of the main providers of evidence to the inquiry. The committee is also seeking evidence and views from other interested parties.

UK NEWS

Poll tax data will be used to update census details

By Richard Evans

THE GOVERNMENT intends to update its inadequate population census figures by making maximum use of the community charge, or poll tax, returns being prepared by local authorities.

That is apparent from a letter received at the weekend by all local authorities in England and Wales responsible for collecting the tax, which will replace domestic rates in England and Wales after April 1.

The move confirms the Government's urgent need to make its population statistics more accurate. The figures are based largely on the last census, in 1981. The widespread changes in population since then have made the basis on which community charge responses are estimated appear ludicrous.

Government figures published last week on community charge registrations showed many local authorities with returns well above 100 per cent, and the City of London with a bizarre 145.5 per cent.

The figures highlighted the size of the gap between the Government's statistics and the actual population. In England, the Government bases poll-tax registrations on a total estimated population of 35.67m, but the present estimate is 36.6m, so that the true relationship between those registering and the eligible total is impossible to judge.

The letter from the Department of the Environment explains the information requirements under the Government's new financial system, which also involves the replacement of non-domestic rates by the uniform business rate.

Community charge registration officers are asked to provide information about the numbers on their registers "for use by the Secretary of State for the calculation of the relevant population."

The intention is to provide information for the Office of Population, Censuses and Surveys to allow it to update its statistics, area by area, "which will be of benefit to both central and local government." Statistics will be sought annually, probably each June.

Union tells mill workers of move to save plant

By Richard Tomkins, Midlands Correspondent

WORKERS at Ratcliffs (Great Bridge), the West Midlands copper rolling mill due to close on Thursday, yesterday attended a mass meeting in West Bromwich to hear outline plans for a union-backed rescue of the plant.

Mr Terry Askey, Dudley district secretary of the Transport and General Workers' Union, is acting as mediator in an eleventh-hour attempt to find a buyer for the rolling mill in the hope of saving the jobs of the 232 people working there.

The owners, a private company called Severn plc, blamed last month's decision to close the plant on workers' intransigence in refusing to accept new working practices.

Mr Askey said an overwhelming majority of the workers turned out yesterday to hear that an unnamed, quoted company might be interested in taking over the plant.

All but two of the workers have taken away forms to say whether they were interested in working at the plant under different ownership.

Labour picks Mandelson for safe seat

By Ralph Atkins

MR Peter Mandelson, Labour's director of communications who masterminded the party's highly regarded 1987 election campaign, was yesterday selected as Labour candidate for the safe seat of Hartlepool.

His victory marks a personal triumph for the 35-year-old former television producer, but might leave a gap in Labour's campaign team. Mr Mandelson has won a reputation for organisational and advertising flair.

Since taking on his job, he has succeeded in rebuilding Labour's image with the electorate – the most noticeable manifestation of which has been the promotion of the Red Rose as the party's symbol. In recent months, the party has enjoyed a strong lead in opinion polls. Mr Mandelson is expected to continne as Labour's director of campaigns and communication for some months. He is likely to stand down before the next general election, possibly not for another two years.

However, he could still offer party leaders advice while campaigning in his own constituency.

Mr Neil Kinnock, the Labour leader, yesterday welcomed Mr Mandelson's success. "Peter, as ever, will be a great asset to the Labour Party and most certainly be will be a fine representative for the people of Hartlepool," he said.

Mr Mandelson is the grandson of Mr Herbert Morrison, Labour's deputy Prime Minister in the 1940s and a legendary Labour Party figure. In the party he is regarded as a "moderate" or "right-wing."

In Hartlepool, he will replace Mr Ted Leadbitter, who is to retire as Labour's parliamentary candidate at the next election. Mr Leadbitter won a 7,289 majority over the Conservatives at the last election.

Mr Mandelson has developed a close working relationship with Mr Kinnock, although his concentration on image and publicity has irritated some colleagues within the party.

He has helped to promote some of the frontbenchers regarded as rising stars of the future, including Mr Tony Blair, Labour's employment spokesman, and Mr Gordon Brown, shadow Trade and Industry Minister.

Mr Mandelson secured 63.3 per cent of the electoral college vote, which gives individual members 60 per cent and the unions 40 per cent. He won nearly 59 per cent of the membership vote 107 out of 182 voting members and 70 per cent of the trade union vote to win the selection ahead of Mr Roy Waller, a local councillor who took 21.5 per cent of the total ballot.

Mr Mandelson is tipped for a high-profile career as an MP.

● Mr Roy Roy Hattersley, tha Labour deputy leader, was reselected as party candidate in his Birmingham constituency yesterday, fending off a left-wing challenge sparked by black activists.

Mr Hattersley, MP for Birmingham Sparkbrook since 1964, won 86% of the vote in an electoral college. Ms Martha Osamor was the only other contender yesterday.

Financial services industry calls for easing of business tax rules

By Terry Byland

THE BRITISH Invisible Exports Council (BIEC) has appealed to Mr John Major, Chancellor of the Exchequer, to abolish stamp duty in his next Budget and grant more lenient tax treatment for UK business.

Lord Limerick, chairman of the council, says Britain's financial services industry is hampered in a competitive environment by UK tax rules. In a pre-Budget letter to the Chancellor, he singles out the effects of stamp duty, including stamp duty reserve tax (SDRT), payable on UK securities traded abroad, and on "the deterrent effect of unrelieved ACT (advance corporation tax) on cross-frontier business activity."

Lord Limerick says paperless transfers will offer the opportunity to reconsider SDRT. The reductions in stamp duty in the wake of the Big Bang abolition of fixed commissions on securities trading in the UK have reduced the cost of doing securities business, but those costs remain a significant element. In most other important national securities markets, there is little or no such duty, he observes.

On ACT, the council says that changes in regulations would encourage more international businesses to set up their headquarters in London. It proposes that any UK business earning more than half its profits outside the UK should be declared an international holding company and permitted to pay dividends either with tax credit or without.

In the latter case, UK shareholders would be liable to income tax on the dividend "which, it is reasonable to assume, would be increased by the amount of the saving in ACT which would otherwise be irrecoverable."

Spending on teacher training will increase

By Peter Marsh

LOCAL education authorities are preparing a 21 per cent increase in the sum they expect to spend next year on training teachers about the intricacies of the National Curriculum.

According to figures from the Education Department, the authorities will spend £102m on teacher training related to the curriculum in 1990-91, compared with £84m in the current year.

Of the £102m, £63m will qualify for a grant at the rate of 65 per cent paid by central government.

Announcing details of the spending, Mr John MacGregor, Education Secretary, said he welcomed the increased emphasis by education authorities towards gearing up training to meet the needs of the new curriculum – which is being phased in at state schools over the next few years.

The £102m expenditure on training in relation to the curriculum will be out of an estimated £325m likely to be spent by the authorities in 1990-91 on all kinds of training in service for teachers.

About two thirds of the money will he eligible for grants paid by the Education Department under a scheme introduced two years ago to boost teacher training. The rest will be paid directly out of local-authority funds.

Call to use goods to stabilise sterling

By Peter Norman Economics Correspondent

BRITAIN should link the pound to a basket of commodities as a preliminary to taking sterling into the Exchange Rate Mechanism of the European Monetary System, according to Mr Kevin Dowd, an economist at the University of Nottingham.

In a paper published by the Bruges Group of Academics and Economists Opposed to a Federal Europe, Mr Dowd said that if sterling were redefined in terms of a basket of goods that had been chosen to keep prices stable, Britain could "eradicate inflation once and for all."

His proposed system would oblige the Bank of England to buy back pounds with assets of the same value as the commodity basket defining sterling. A limit would thus be placed on the Bank's ability to issue money in much the same manner as the 19th-century gold standard.

Inflation would cease and Britain could enter the ERM with sterling as the key European currency, he said.

According to Mr Dowd, the British Government could then "set the agenda for Europe's monetary future" and provide a positive and coherent response to the Delors Committee's proposals for a European common currency and system of central banks.

Mr Dowd gave no specific details of the proposed commodity basket, claiming instead that "a good economist could come up with a definition within a week."

In a preface to the study paper, Mr Patrick Robertson, the Bruges Group's secretary, acknowledged that Mr Dowd's idea "may not be practicable when exposed to the scrutiny of European economists." Yet it was a "positive proposal that needs to be openly discussed," he said.

How to end European Inflation, by Kevin Dowd. (Study Paper IV). The Bruges Group, 85/87 Jermyn Street, London SW1Y 6JD.

Disaster backlash draws blood at Lloyd's

Patrick Cockburn on concern in some syndicates at the consequences of catastrophe

THE Lloyd's of London insurance market has enjoyed better times. In recent years it has shifted more and more into the business of insuring against catastrophe as the commercial companies have taken over more traditional areas of cover.

That did not matter very much in the mid 1980s when there were few catastrophes, but this year and last saw a series of disasters unprecedented in size and frequency. Given the degree to which Lloyd's and insurance companies lay off risk – in an endless game of pass the parcel – casualties among insurers have been slow to emerge.

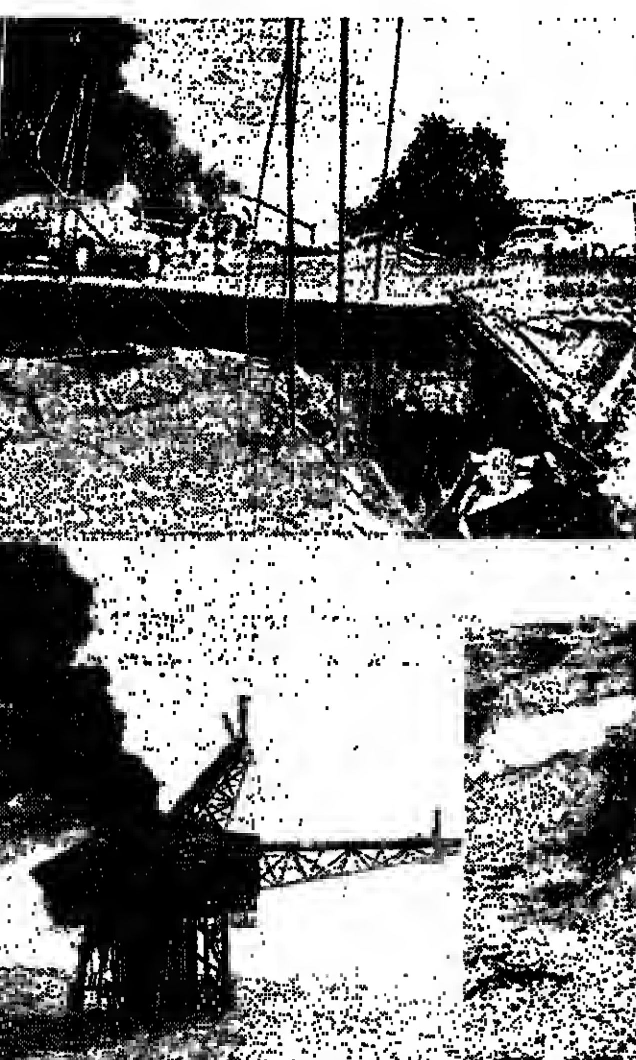
Most vulnerable here are those involved in the incestuous reinsurance spiral in which reinsurers reinsure each other. Ultimate liability becomes difficult to assess as risks are passed backwards and forwards in deals of labyrinthine complexity.

This week, the Piper Alpha disaster of July 1988 claimed its first victim at Lloyd's. Marine syndicate 298, with 1,870 Names, or members, announced that it would cease underwriting for 1990 because of losses stemming from the destruction of the North Sea oil production platform at a cost of about $1.4bn (£875m).

Mr Hugo Pilch, finance manager of Gooda & Partners, which manages the syndicate, said members' agents representing the Names had "voted with their feet" and there were not enough Names to provide adequate capacity for the syndicate to continue trading in 1990. It might resume underwriting the following year.

Claims on the syndicate as a result of Piper Alpha had come through more quickly than expected in recent months. "Projecting forward, you can predict when you are going to break through reinsurance cover [the point at which the syndicate has to pay out its own money] and you begin to get very worried," Mr Pilch said.

Similar fears led to members' agents discouraging Names from becoming members of syndicate 298 next year.



Disasters: San Francisco earthquake (top), Piper Alpha (left), in insurance terms the worst ever offshore disaster, and Charleston in the US after it was hit by Hurrican Hugo

Mr Pilch considers that a little unfair, arguing that other syndicates and companies have been as badly affected by Piper Alpha and other disasters but with less publicity.

The nervousness by Names also reflects more general concern about some syndicates specialising in excess of loss - the top end of a claim above a certain limit usually only triggered by disasters - and in particular those involved in the area of retrocessional business, where reinsurers reinsure each other. Already at the end of November, Merrett Holdings, a leading Lloyd's underwriting group, announced that it was reducing its involvement in the London excess-of-loss market. In particular, it virtually pulled out of the non-marine retrocessional market, where Merrett had been one of the largest writers of business.

Mr Ken Randall, Merrett's managing director, said tha group had been considering the move for some time but its fears had been crystallised by the string of catastrophes this year.

Over a three-month period, insurers were faced with an unprecedented series of disasters: Hurricane Hugo, with insured losses of possibly $9bn; the San Francisco earthquake ($1bn); and the explosion at the Philips chemical plant in Pasadena ($1.2bn).

A significant proportion of those losses will end up in in the London Market Excess of Loss (LMX), where syndicates and fringe companies go for their own reinsurance. Because of the number of times every risk is reinsured, real losses and the identity of those without reinsurance cover take time to appear. Syndicate 298 is still not clear about how much it will pay for Piper Alpha. Elsewhere in the market, reinsurance claims from long-forgotten disasters such as Hurricane Alicia in 1983 in the US are still surfacing.

Excess of loss has been one of the few growth areas in the London insurance market at a time when premium rates are low.

The pass-the-parcel movement of reinsurance through the retrocessional market produced profits regardless of the underlying risk – and the number of transactions conducted meant easy and profitable business for brokers.

Some syndicates and companies are now peculiarly vulnerable to past underwriting errors in accepting risks for low premiums, over tractability with brokers or inadequate reserves for present needs. "We think there are quite a number of syndicates nudging the top of their protection," says Mr Hugh Kirkland, head of marine reinsurance at E. W. Payne, the reinsurance branch of Sedgwick Group.

The overall capacity of the LMX market may now suffer. "Prophets of doom suggest there will be difficulty in placing catastrophe covers which come up for renewal from 1 April," says Mr Hady Wakefield, chairman of C. T. Bowring Reinsurance. A more general viewpoint, however, is that the lack of capacity will produce higher premiums, not absence of cover.

At the same time, the US catastrophe market is less than 0.5 per cent of US direct insurance. The LMX market may be hurting as a result of two years of catastrophes but it is ultimately small in scale.

Difficulties facing the excess-of-loss syndicates in the 1990s are confined to a corner of the market, very unlike the impact on the UK insurance industry of the heavy US environmental pollution and asbestos claims in the 1980s.

£272m outflow from National Savings pool

By David Waller

THE OUTFLOW from National Savings continued last month, with depositors withdrawing £379.1m but paying in only £106.7m. This made a net outflow of £272.4m for November.

It is the fifth successive month that net outflows have exceeded £200m, reflecting public indifference to National Savings products combined with the Government's determination to repay public debt.

There was a net £11.6m repayment from the investment account in spite of a rise in the interest paid on that, effective from November 17.

The rise in the interest on gross-paid accounts was effective only from the middle of this month.

Hanson wins radio franchise

By Raymond Snoddy

LORD HANSON, head of the Hanson Group, has won a commercial radio franchise at the second attempt.

The Independent Broadcasting Authority will announce formally today that Lord Hanson's Melody Radio has been awarded a licence to broadcast "easy listening" music to the Greater London area. Melody Radio competed this year for the new commercial London licence that went to London Jazz Radio.

The interest in running new commercial stations in the capital was so great that, after talks with the Government, frequencies for two further stations were found.

The second of the new licences has gone to Kiss FM, a former pirate station, which plans to broadcast a mixture of soul and black music.

There were 32 applicants for the two London licences – the last commercial licences to be awarded before the new Broadcasting Bill becomes law. Eight of them were rivals to run Britain's first commercial classical music station.

The IBA was being criticised yesterday for not taking the opportunity to create a commercial classical-music rival, at least in London, to the BBC's classical-music channel, Radio 3.

The IBA yesterday insisted, however, that Melody Radio and Kiss FM had been chosen on merit on the basis of their applications. The authority said that no particular categories, such as classical music, had been set aside for special treatment.

In the past year, the IBA has licensed more than 20 commercial stations, using existing legislation.

The new Broadcasting Bill is due to receive its second reading today. It will set up a new radio authority designed to create up to three national commercial networks and several hundred local and community commercial radio stations during the 1990s.

Security complaints body

By Peter Marsh

PEOPLE who think they are getting a raw deal from M15 or M16 will from today be able to lodge complaints to a special tribunal that will henceforth rule on the various predicaments encountered.

Establishment of the tribunal is a result of the 1989 Security Service Act taking effect. The law's intention is to give a new statutory basis to the activities of the security services.

A tribunal to examine complaints will commence its work from today under the direction of Lord Justice Murray Stuart-Smith, the Commissioner appointed as responsible for the security service.

The tribunal may be contacted at PO Box 18, London SE1 0TZ.

Wool textiles set for export record

EXPORTS of wool textiles this year are almost certain to be a record, according to the National Wool Textile Export Corporation, writes Peter Marsh.

Earnings from overseas sales for the first 10 months came to £570m. The existing record is £613m for the whole of 1988 and exports this year are so far running at 12 per cent above last year's levels.

MANAGEMENT

The management environment

Knowledge is an unsettling thing

Michael Skapinker looks at how managers' work will alter in the 1990s as old rules no longer apply

The 1990s looks like being the decade in which managers need their subordinates more than their subordinates need them.

It is not just that skill shortages have blighted many areas of industry and commerce, turning employees into a scarce resource over which companies have to squabble.

Nor is it just that companies will fail if they cannot find staff who are ready to take that extra bit of trouble, whether in raising quality, improving customer service or shortening product development times.

The more important reason why managers need their subordinates is that they can help them learn how to manage again.

As Rosabeth Moss Kanter of the Harvard Business School argues, the job of being a manager has undergone such enormous change that it needs to be reinvented. The change manifests itself in many ways, but the underlying cause is the same: for organisations to succeed, employees need to become increasingly knowledgeable and skilful. The more they know, however, the less easy they are to manage.

For example, successful organisations know that they need to forge closer links with their suppliers and customers. Not all those responsible for developing and deepening those links are senior members of the corporate hierarchy. Maintaining the links requires the co-operation of middle managers, as well as of salespeople, receptionists, telephonists, transport and warehouse staff. These employees often end up knowing more about customers and suppliers' needs than their superiors do.

In an article in the November/December issue of the Harvard Business Review, Kanter tells the story of a purchasing manager at a computer company whose superiors encouraged her to develop closer ties with suppliers. She learned a lot about the suppliers, but they also learned a lot about her. The result was that they were able to appraise her performance just as effectively as her superiors could.

Developments like these can be immensely threatening to senior managers. How do you know how well your staff are doing if they develop knowledge, skills and contacts which you don't have? How can you appraise performance if your customers and suppliers know more about your staff than you do?

Kanter says that in the past managers performed well by following set procedures. They did things by the book and ensured that their subordinates did the same. Now, however, the rule book is gone.

"In the new corporation, managers must learn to operate without the crutch of hierarchy. Position, title and authority are no longer adequate tools, not in a world where subordinates are encouraged to think for themselves and where managers have to work with other departments and other companies."

The problem of managing knowledgeable employees has been discussed by Tom Lloyd and Karl Erik Sveiby in a book called Managing Knowhow.* They looked particularly at the difficulties faced by companies which employ "knowledge workers", organisations like management consultancies, advertising agencies, newspapers, research laboratories and computer software houses. These organisations recruit people precisely because they are creative, irreverent and able to come up with new and unconventional answers. In short, they recruit people to break the rules.

Working with such people is often stimulating. Managing them can be exasperating. Conrad Black, owner of the Daily and Sunday Telegraph, said in a recent interview with the FT that some of the journalists he employed were "temperamental, tiresome and nauseatingly eccentric and simply just obnoxious." They could not, however, be treated as just another unit of production, he said.

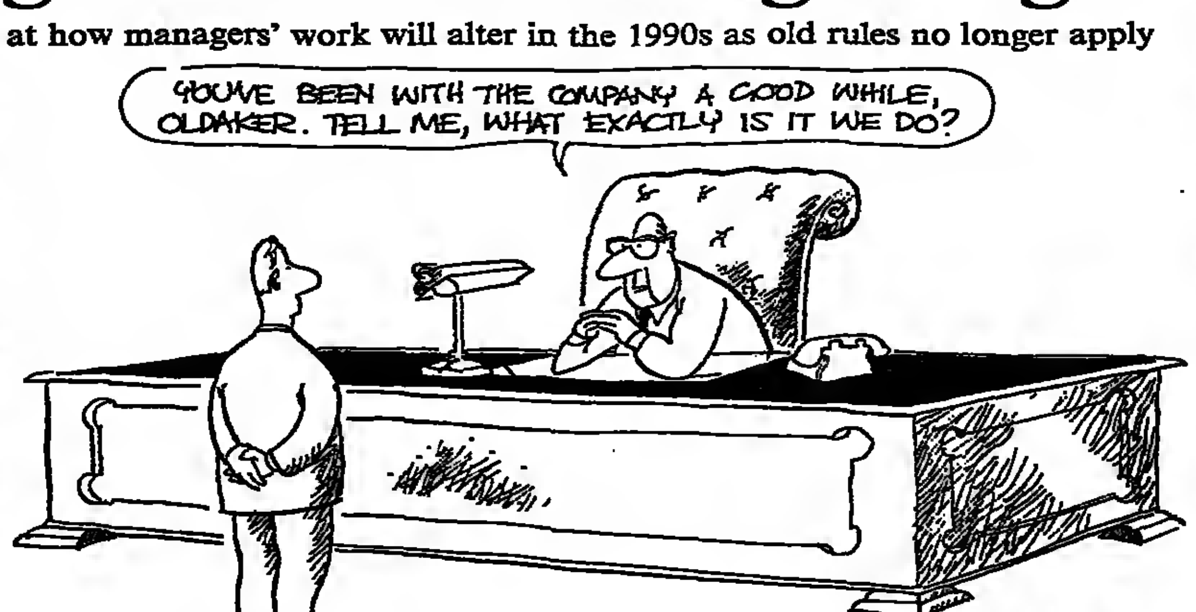
The problem of managing difficult people has now spread well beyond the "knowledge sector". Indeed, it could be argued that we are all knowledge workers now. Several manufacturing companies are teaching their hourly-paid workers the techniques of statistical process control, thereby giving them direct responsibility for quality.

Triplex Lloyd, the UK engineering, building components and foundries group, has begun to identify shop-floor workers with management potential. It is convinced that its employees have talents the company has not previously recognised.

A recent report by the PA Consulting Group, which was published by the Department of Trade and Industry, warns that manufacturers must place greater emphasis on turning out products with a high "knowledge content", based on good design and using microprocessors and high-performance materials.

Employees manufacturing such products might not be as obnoxious as journalists, but they cannot be treated as mere units of production either. Neither management edicts nor exhortation will persuade them to turn out products of the quality required. They have to believe in their company and its mission.

Nor can companies force their staff to treat customers properly. They can insist that they go through the motions of providing a decent service, but as anyone who goes into a supermarket or bank knows, employees have their own way of telling customers that they don't really care.



Companies have, in the past few years, experimented with various ways of winning employee commitment. They have tried share options, profit-sharing, performance-related pay, quality circles and team briefing. The results, however, have been mixed. The problem with schemes of this sort is that they are difficult to set up and easy to undermine.

Many employees are cynical about such attempts to start off with. Their cynicism deepens if they suspect that employee commitment programmes are simply a screen for a management determined to hang on to the old way of doing things.

Office seating arrangements and where employees eat their lunch say more about what a company thinks of its staff than any number of profit-sharing schemes or corporate videos. It is difficult to win employee commitment at the best of times. It is harder still in an organisation which retains executive dining rooms and parking spaces.

Given that current changes are so difficult to deal with, many managers take refuge in the past, desperately attempting to shore up their crumbling authority. Faced with an organisation in which employees start to show initiative, threatened managers try desperately to keep them in line, becoming excessively authoritarian in their outlook. They begin to see employees as the enemy – people who are ungrateful for everything their managers have done for them.

Others persuade themselves that people do not matter that much. They immerse themselves in other aspects of the business, like information technology systems or production techniques. They argue that they are running a business, not a psychotherapy practice; that their job is to make money for shareholders, not to run a social centre for employees.

It is a view which puzzles people like Akio Morita, the chairman of Sony, who has never been able to understand those western executives who believe that management is about something other than the management of people.

So how do you manage knowledgeable employees? With difficulty, say those managers who have tried. They point, however, to certain basic principles.

The first is to be consistent. If you believe that employees are your biggest asset, you have to demonstrate it in everything you do. Showing your people that you value them is a full-time activity. It cannot be confined to the annual Christmas party. That does not mean employees don't have to obey the rules or that they should not be held to performance targets. It does mean that managers should think about all the signals they send. There is no point wandering about talking to staff unless you are prepared to listen to what they say. If you go to talk rather than listen they will soon lose interest.

The second aim should be to make it easy for employees to make a difference. All managers say they want staff to come to them with their ideas on how to increase efficiency, improve service or tap new markets. Not all managers really mean it.

The way in which managers talk about their employees' ideas is usually a give-away. Those who genuinely believe in using employees' knowledge immediately reel off a list of innovations that resulted from staff suggestions. Those who only pretend to use their employees' knowledge usually tell you about the hoops their staff have to jump through to get an idea to the people who matter. "First they tell their supervisor," they say. "Then if he thinks it's a good idea he passes it on to the department responsible who will then pass it on to the director concerned."

Employees who take the trouble to make suggestions should be able to see results. If their idea is worth something it should be implemented. If it is not, they should be told why. Above all, everyone who makes a suggestion should be made to feel they have done something important.

Thirdly, managers need to look at ways of giving employees more pride in their work. Kanter argues that "pride is often a better source of motivation than the traditional corporate career ladder and the promotion-based reward system."

Charles Handy, the British management writer and lecturer, believes that bylines will become an important way of acknowledging employees' contributions. Newspapers use them already. So do television companies. "You don't want to know who the assistant wardrobe manager is. But he or she wants to tell you," Handy told a conference in London last year. Bylines can be used in many industries. Some manufacturers attach a note to products giving the name of the workers who made it.

Fourthly, organisations need to provide their employees with opportunities to learn. "The chance to learn new skills or apply them in new arenas is an important motivator in a turbulent environment," says Kanter.

"Some companies – General Electric, for example – have always been able to attract top talent, even when they could not promise upward mobility, because people see them as a good place to learn and a valuable addition to a résumé."

Some companies say they have tried to offer employees greater learning opportunities – only to lose those employees to competitors who found it easier to poach staff than to train them. James Doel, Triplex Lloyd's chief executive, agrees that he might lose many of the shop-floor workers he trains. But he takes a longer view. He suspects he will see those departing employees again. They might return as more senior managers or even as customers.

A fifth point is that it is not just junior employees who need to learn. Managers need to do so as well. They need to update their product and market knowledge, but they also need to re-examine constantly the ways in which they manage.

There is no disgrace in abandoning or altering a particular programme if it doesn't work. One of Triplex Lloyd's management development programmes was a success. The other was not. There was no way of knowing in advance which would work and which would not.

How do you know whether you're managing effectively or not? Your employees can tell you. Those managers who are finding ways of managing their knowledgeable subordinates say they look for solutions in partnership with their staff.

Every few years, Allied Dunbar, the UK insurance and financial services group, asks a survey organisation to carry out a detailed poll of its employees. In 1987, the last time the survey was carried out, 86 per cent of employees said they thought Allied Dunbar was well-managed and 84 per cent thought that senior management was generally respected by the staff.

In a rapidly changing and highly competitive world, those sorts of results don't guarantee commercial success. But they're not a bad start.

*Bloomsbury, £13.95

Management abstracts

The logic of electronic markets. *T.W. Malone + others in Harvard Business Review (US), May/June 89 (5 pages).*

Examines the development of electronic markets, starting from single-source order-entry systems direct from customer to supplier via a terminal on the customer's premises, to networks which enable customers to access wider markets, and compare and order offerings from competing suppliers. Discuses, quoting several US examples, the economics and benefits of this trend (which the authors see as irreversible).

A strategy for computer disaster. *The Executive's Journal (US) Summer 89 (11 pages).*

Warns of the vulnerability to interference of distributed computer systems, and suggests that many companies' precautions are inadequate and that attitudes are too complacent; backs up the charge with survey data, listing some 50 types of access control with frequency-of-use data; believes that senior management (e.g. chief executive) must play an active role in installing proper controls.

Does you organisation need a mission? *A. Campbell in Leadership & Organization Development Journal (UK) Vol 10 No 1 89 (7 pages).*

Defines the content of an organisation's mission – purpose (why the organisation exists); strategy (describing the businesses and activities it wants to run); a set of values (beliefs underpinning management style, ethics and relationships); and standards of behaviour. Discusses why a mission is important (e.g because it provides a link between behaviours, the organisation's values and employees' values) and its benefits, such as encouraging loyalty and commitmant; describes how to create a sense of mission and communicate it to everyone in the organisation; provides a set of guiding principles, distilled from the approaches of companies like Marks and Spencer and British Airways. Identifies situations where a mission might be inappropriate, and looks at the problems of defining a mission in a multi-business operation.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £5 each (including VAT and p+p; cash with order) from Anbar, 62 Toller Lane, Bradford, West Yorkshire BD8 9BY.

FINANCIAL TIMES SURVEY

Care of the Elderly

The increasing number of old people in Britain will become one of the most searching social issues during the next decade. **Alan Pike** examines the challenge that faces government and local authorities in coping with the heightened demand for care

By 2025 there will be 11.3m people aged 65 or over in Britain - more than double the number in 1951

Tony Andrews

New look at an old topic

MOST OF the political energy over the National Health Service and Community Care Bill, which received its second reading last week, will be devoted to the Government's proposals to reshape health care.

Of equal importance, however, is the Bill's strategy to set a new foundation for care in the community to cover a period during which the number of very elderly people in Britain's population will increase dramatically.

By 2000 the number of people aged 85 or over, who are most likely to be disabled and have the highest demands for care, will have increased by almost 50 per cent and will go on rising into the next century.

This growth in the very elderly population does not have to prove a problem, any more than old age itself should be regarded as a problem, but it calls for planning. It will lead to substantial increases in demand for both residential and home care at a time when other demographic changes will make the provision of this more difficult – a decline in the numbers of young people will create problems in the recruitment of nursing staff, while non-working women who contribute most informal care will be under growing pressure to return to the labour market.

In 1951 there were 5.5m people aged 65 or over in Britain. By 2025 this will have more than doubled to 11.3m.

An older population presents opportunities as well as challenges. Large commercial organisations are gaining a greater hold in the provision of residential care for the elderly, a sector once dominated by single owner-proprietors, showing growing recognition of the potential scope of this market.

A growth in building retirement housing for the elderly which took place during the 1980s is being followed by developments sncb as PPP Beaumont's close care, which links the opportunity for people tc buy their own property with the provision of nursing support from nearby PPP Beaumont nursing homes.

Wider commercial opportunities will arise from tbe increase in the numbers of elderly people, many of them affinent and with time to spare, in the population. Travel, entertainments and health insurance are among sectors which will be presented with scope to develop new products. Packages to finance long-term care in old age are likely to be developed by the insurance industry.

But the Government made it clear in its white paper, Caring for People, pnblished last month, that it also wants to see a greater private sector role in the direct provision of care for the elderly.

At present, this role is largely confined to the operation of residential and nursing bomes. Until the mid-1970s, most residential care was provided in local authority homes – which went through a period of growth as the population began to age – and the private sector was confined to catering for those who could pay their own bills.

This has changed completely during the 1980s. A market survey published by Laing & Buisson, specialist health care publishers and consultants, shows that private sector provision now outnumbers public. There are an estimated 143,200 beds in private residential homes and 88,600 in private nursing homes, compared with a total of 215,400 in local authority homes and NHS long-stay hospitals. Voluntary organisations provide a further 50,400 beds.

The explosion in private sector provision was brought about by the state using social security payments to enable people of limited means to stay in private homes. Social security funding of people in independent homes, which cost £10m in 1979, is now more than £1bn a year.

Apart from its cost, this method of funding created a "perverse incentive" for autborities to accommodate the elderly in homes, although the policies of successive Governments throughout the 1970s and 1980s have favoured people living normal lives in the community wherever possible.

Under the reforms now before Parliament this method of financing will end – although the position of people in private homes wben the changes come into effect in 1991 will be protected – and local authority social services departments will become responsible for assessing the care needs of each individual.

In future the authority, rather than the individual, will decide whether residential care is the most appropriate option. Money which would have been spent on social security payments will be transferred to local authorities, which will be able to choose wbether to spend it on residential care or on improving support services for people in their own homes and local communities.

The decision to give local authorities the co-ordinating role in community care has been broadly welcomed, although the crucial questions of how much money will be available to finance the new system remain to be answered.

The Government has rejected the original recommendation of Sir Roy Griffiths, its health service adviser on whose report the proposals are based, that local authorities should receive separate, ring-fenced funds to finance community care. Funding will instead be through the normal revenue support grant system, and critics are concerned that this will make it impossible to assess whether adequate funds are being provided – or whether money intended for community care is actually used for that purpose. The Labour Party intends to introduce an amendment while the Bill is before Parliament in an effort to ensure that community care funds are ring-fenced.

Local authorities will, in the words of the white paper, have "every incentive to make use of the independent sector" – there will be an actual financial disincentive for councils to accommodate people in their own homes, and unless this changes while the Bill is before Parliament it is certain to lead to a decline in local authority provision. Wirral Council on Merseyside has already considered disposing of its entire stock of old people's bomes but, after local opposition, a working party is currently reviewing the question.

Councils will be encouraged to enter into contracts with private sector residential and nursing homes for the provision of care at agreed prices. The extent to which the private sector responds depends entirely on the value of the contracts. In recent years, many private and voluntary homes have found it difficult to accommodate elderly people who are unable to top up Department of Social Security income support payments with money of their own.

Laing & Buisson's review shows that only 28 per cent of nursing homes charge fees for shared rooms which could be met from social security payments alone. For single rooms this drops to 11 per cent while "in some areas of the country the percentages approach zero". The review also shows that, while demographic change and other factors should have generated an additional 11,500 private care home places in England in 1988-89, the actual increase was 30,000.

In an atmosphere of uncertainty over future levels of public funding, some private providers in a competitive market are likely to give priority to developing sophisticated facilities for the 40 per cent of elderly people in residential care who are in a position to pay their own fees.

The Goveroment wants to encourage more private sector activity in the provision of day and bome care facilities – the level of private sector interest will again depend on funding. Local autborities are, meanwhile, being encouraged to reorganise their traditional home help facilities to target assistance on priority groups who would otherwise have to enter residential care.

Whatever changes in the care of the elderly result from the reforms in the Bill, one fact is certain – tbe bulk of care will continue to be provided by relatives and friends. An estimated 6m carers provide this support on a regular basis and Caring Costs, a campaign supported by a number of charities, is pressing for them to receive an adequate independent income.

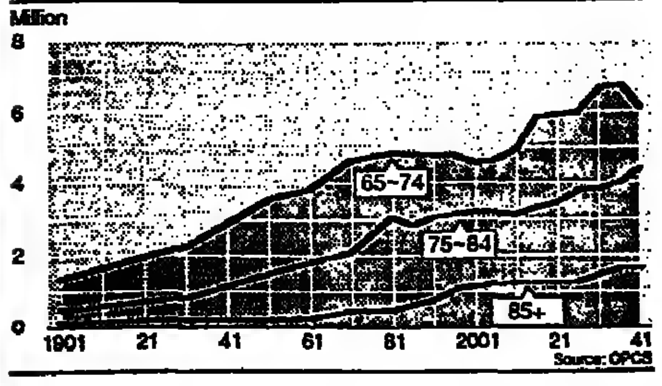
The increasing proportion of elderly people in the population will ensure that ageing remains a significant social and political issuo Into tho next century. Bot, stressed Prof Anthea Tinker, professor of social gerontology at King's College, London, in her inaugural lecture last month, the growing number of elderly people was "as mucb a cause for celebration as for concern," and it was unhelpful to see older people as a burden on society.

She criticised the fact that old age is often projected in one of two extreme ways, either through stories of poverty and muggings or through images of hang-gliding grannies. "Older people have a great deal to offer. Not only have they lived through a most challenging period in history, they are today healthier, better educated, have a wealth of experience and should be regarded as a valuable resource."

The Third Age

On January 6 the Weekend FT will publish a special issue on The Third Age, containing features of particular interest to readers who have reached middle age and are seeking new interests and activities

Great Britain population



CARE OF THE ELDERLY 2

In-house care facilities a leading priority

Service for stay-at-homes

HOME HELPS and day care services are central to successful community care policy.

Given the choice, most elderly people prefer to continue living in their own homes whenever possible, and the increasing numbers of elderly people in the population will in any case make home rather than residential care a necessity for many. This means the provision of support services in and near the home will be one of the leading priorities in community care in the next decade.

Last month's white paper "Caring for People" noted that private sector involvement in the care of the elderly is at present largely confined to the residential care and nursing home fields. Non-statutory provision of other services were, said the white paper, less well-developed and the Government expects social services authorities to "explore ways of further stimulating private and voluntary provision of domiciliary, day and respite care wherever possible".

Some local authorities are already using non-statutory organisations to assist with the provision of day centre facilities, although these tend to be voluntary organisations rather than private companies.

Most of Norfolk County Council's day care facilities are provided in collaboration with the voluntary sector in church halls; sheltered housing developments are elsewhere. Wiltshire County Council has adopted a similar approach, with community development officers co-ordinating services at local level with voluntary organisations.

Care given to people in their own homes accounts for around 10 per cent of local authority social services expenditure, and this is an area where councils are coming under increasing pressure to examine the quality and efficiency of the servicesthey provide.

Mr Stephen Mitchell, of the Department of Health's Social Services Inspectorate, told a conference organised by the London University Age Concern Institute of Gerontology earlier this year that home care services in all local authorities visited by the inspectorate "remained trapped in a model of high coverage and low intensity service delivery". Increased resources were used to provide a similar service to more people, rather than targeting a different style and quantity of service at groups of people with greater needs.

In those metropolitan district councils inspected in 1987-88 coverage of the elderly population ranged from 2 per cent to 14 per cent, with 85 per cent of service users receiving home help services for four hours a week or less.

Three-quarters of the time of care assistants in two sample authorities was spent on housework, 10 per cent on companionship, 10 per cent of tasks outside the home and only 5 per cent on personal care tasks. "This distribution of time did not appear to be consistent with the expressed intentions of both authorities to provide more effective support to highly dependent people in the community," said Mr Mitchell.

The inspectorate is concerned that local authorities have made too few efforts to establish the real needs of people receiving home care services, and find out what elderly clients feel about the services they get. It wants to see improvements in the way services are managed and better training for home care staff.

Some local authorities have embarked on efforts to change their home care facilities. Mr Roger Gibbins, service development officer for the elderly and physically handicapped in Berkshire, told the conference how the county has adopted a strategy intended to transform "a home help service, with its traditional roots in domestic cleaning, into the mainstay of an effective strategy of community care".

Instead of carrying out simple domestic cleaning duties for as many elderly people as possible, the council's home helps will in future be used to provide a more extensive range of services for priority groups of clients who would otherwise be candidates for residential homes.

This shift towards providing home care services for more clearly identified priority groups, possibly to the extent of merging some home care and home nursing duties, is likely to increase in the 1990s. The extent to which the private sector will become involved in these activities will depend on the amount of finance available.

There has been a recent growth in companies providing home care services for people able to pay privately. Mrs Helen Flatt, a nurse, runs Care at Home, a Guildford-based care agency formed in 1986 which now provides day and 24-hour care on a national basis. The agency carefully matches carers and clients, and its carers will provide whatever facilities an individual elderly person needs, ranging from basic shopping and cooking to bathing, dressing and administering medication under approved supervision.

Helen Flatt: matches carers and clients

Care given to people in their own homes accounts for around 10 per cent of local authority social services expenditure

There has been a recent growth in companies providing home care services for people able to pay privately

Care at Home charges its clients £5.32 per hour. Clients or their families have to meet these fees, although some can obtain support from the Independent Living Fund. "I believe our charges are reasonable compared, for example, to what many people pay to employ cleaners in their homes," says Mrs Flatt.

"But when people suggest that private companies should tender for public sector care work, they have to recognise that the level of funding available in the public sector is ludicrously low. The Government and public must appreciate that proper quality community care is not a cheap option."

Alan Pike

Alan Pike on the NHS switch to private sector homes

Partners in providing care

BARBARA CLIFFORD founded Storth House Care in Huddersfield four years ago with the help of £40 a week from the Government's Enterprise Allowance Scheme.

Since then it has grown from a 12-bed residential home into a £3m business with 84 beds. It employs 104 people full- and part-time, and further planned growth will take it to 500 beds in the next 18 months.

The speedy growth of Storth House has been in reputation as well as in size. This month the business entered into a pioneering agreement with Huddersfield District Health Authority under which Storth House will provide care for elderly NHS psychiatric patients in e new £500,000 purpose-built unit which is part of the development programme.

This is an example of the way in which the Government hopes its proposed health reforms will encourage public health suthorities to enter into contracts with private sector providers which can offer more cost-effective facilities. Although the cost of providing care in Storth House will exceed the normal levels of social security paid on behalf of elderly people in private sector homes, it will be considerably less than the typical National Health Service costs for keeping elderly patients in psychiatric hospitals.

Many health authorities are looking at the scope for partnership arrangemeots with the private sector, particularly if they are oot only financially viable but enable elderly people to move from old Victorian institutions to more pleasant, modern nursing homes.

Takare, a publicly-quoted company providing long-term care for the elderly, has reached an agreement to build and manage two nursing homes for the exclusive use of East Suffolk Health Authority.

The homes, at Stowmarket and Ipswich, will have a total of 240 beds. Takare will provide the capital investment for the project, and the health authority will take all accommodation in the nursing homes under a 10-year contract worth £30m at current prices.

Takare already provides nursing home facilities for other health authorities and charities, but the East Suffolk arrangement is the first time an authority has taken exclusive use of entire homes.

Mr Keith Bradshaw, Takare chairman, believes such contracts will become more common as health authorities begin to appreciate that private sector providers can offer good quality nursing home care and significant cost savings. He says the company is in other negotiations involving at least 1,000 beds which will be exclusively or substantially contracted to health authorities.

He believes the East Suffolk contract represents the culmination of Takare's planning. "I foresee a significant number of projects such as this as people realise the benefits they can provide in releasing health service resources for other pressing needs."

In a development being planned in the South West Westminster Health Care, another private sector provider of care for the elderly, will enter into a partnerahip arrangement with Plymouth District Health Authority. The authority will close St Mary's hospital for the Elderly, a 150-year-old former workhouse at Launceston, and rehouse its patients in a new nursing home being developed by Westminster Health Care on land next to the town's general hospital.

Westminster will meet the costs of designing and building the 107-bed nursing home, in which the health authority will lease 40 beds. The remaining 67 will be used by Westminster to provide private care for the elderly.

All existing St Mary's staff will be offered severance pay and the opportunity to work for Westminster. The health authority and Westminster are considering arrangements under which the NHS would provide some services, such as occupational therapy and physiotherapy, for Westminster and Westminster staff would provide other services in Launceston general hospital. NHS doctors will remain responsible for the health care of the elderly people in the new Westminster nursing home.

About 6m people are carers

Relative savings of £15bn a year

THE SYSTEM of care for the elderly would collapse if all care had to be provided by statutory bodies or private companies.

Most care comes from relatives and friends of elderly and other dependent people. It is estimated that around 6m people are involved in the regular provision of care – with 1.4m of these devoting more than 20 hours a week to the task – and carers' organisations calculate that this is saving the state £15bn e year.

This year has seen a growth in a campaign to persuade the Government to put some of these "savings" in the form of improved allowances in the hands of people who look after relatives and friends.

Caring Costs, a campaign for an independent income for carers, has published the results of a census which showed that many carers find their own lives adversely affected by the pressures of caring. Four out of five people said they had financial problems as a direct result of caring. Many had been forced to give up work, or at least rednce their working hours and forgo promotion prospects.

"Caring for a disabled, sick or frail person at home can involve sacrifices, stresses and strains," says Caring Costs. "It is clear that financial support for carers is woefully inadequate, so that for many carers poverty and financial insecurity are added to their other difficulties."

As an immediate programme of help for carers, the group is calling for:

- Invalid Care Allowance, currently £26.20 per week for those who qualify, to be paid at the same rate as retirement pensions;
- Further relaxation in the Invalid Care Allowance earnings limit, over and above a proposed rise from £12 to £20 per week;
- A flat rate allowance for all carers to cover extras such as higher transport, telephone and food costs.

THE CARE SECTOR (number of places and annual market value at March 1989)	Places	£m
Private nursing homes	88,600	1,002
Private residential homes	143,200	1,123
Total private supply	231,800	2,125
Voluntary nursing homes	10,400	101
Voluntary residential homes	39,900	277
Total voluntary supply	50,400	378
NHS long-stay geriatric	49,100	828
NHS elderly mentally ill	31,000	523
Local authority Part III	135,300	1,070
Total public supply	215,400	2,421
ALL SECTORS COMBINED	497,600	4,924

Source: Laing & Buisson

Last year the Association of Carers and the National Council for Carers and their Elderly Dependants merged to form the Carers' National Association. As well as campaigning for better support for carers, this is actively developing local branches and groups to help relieve the problems of isolation which many carers suffer.

Ms Jill Pitkeathley, director of Carers,' shares the disappointment of many organisations that the Government does not intend to introduce a specific ring-fenced funding mechanism for community care, but will instead finance it through the general local authority grant mechanism.

"This will make it mnch more difficult to determine whether finance is adequate. But one of our hopes is that the new arrangements may shift the financing emphasis in favour of carers, two-thirds of whom get no help at all at present."

A more sensitive approach to the needs of carers and involving them in the development of community care plans, says Ms Pitkeathley, could bring many people much-needed help without creating huge demands for extra resources. "There seems to be a temptation not to ask carers what help they need for fear that they are going to say they want two weeks off in every four. In fact, what many people would desperately like would be a proper night's sleep once a week."

The Government, in the white paper Caring for People, recognises the great bulk of community care is provided by friends or family.

"The decision to take on a caring role is never an easy one. However, many people make that choice and it is right that they should be able to play their part in looking after those close to them."

One of the white paper's six key objectives is defined as making practical support for carers a high priority. "Assessment of care needs should always take account of the needs of caring family, friends and neighbours."

Alan Pike

Old age does not inevitably mean poor health, says **Lisa Wood**

Recipe for staying active

SOUND health is more important to a happy retirement than piles of money in the bank, according to a recent survey by Scottish Amicable Life Assurance Society.

"Six in 10 people feel sound health to be more important to a happy retirement than sound finances," Scottish Amicable concluded after conducting a survey of more than 400 retired people under 75 years of age.

The conclusion may seem rather facile. Poverty and ill-health are not unrelated and many old people's health problems are exacerbated by living in poor housing conditions and having low incomes.

However, old age itself does not inevitably mean poor health and dependency and, in an age when the elderly are living longer and community care is much vaunted, the need for promotion of healthy lifestyles among the elderly is an increasingly important element in health care.

"There are powerful reasons for increasing health promotion for older people," says Age Well, a campaign which seeks to promote health activities for, and with, older people.

Poverty and ill-health are not unrelated and many health problems are exacerbated by living in poor housing conditions and having low incomes

Age Well, which was set-up by Age Concern, said: "Being old isn't a disease, it's a natural process, the same as being born. The majority of elderly people live independently in the community. Most are keen to maintain an independent life. While acknowledging the growing number of frail elderly people in the population, it is important not to be alarmist by assuming that each individual will inevitably become dependent.

"Good health affects the quality of life for older people, and the extent of their independence and ability to pursue a range of activities, just as it does for other groups in society."

"Health" means a host of different things to various groups. For some old people it simply means freedom from chronic aches and pains. For others it is linked with taking greater control over their own lives – with self-sufficiency, mobility and the ability to learn new things. These issues are inextricably linked to factors such as basic services and facilities as well as society's attitude towards old people.

Most elderly people are keen to maintain an independent and healthy lifestyle

Tony Andrews

Health workers involved in promoting health and healthy lifestyles among the elderly agree that challenging negative stereotypes of old age is critical to the promotion of positive attitudes – and healthy lives – among the old.

Challenging ageism, like formal retirement ages, is part and parcel of this campaign. Recently, for example, the ending of age discrimination at work was called for in a petition to the Prime Minister, signed by more than 40,000 people.

The petition was promoted by the Association of Retired Persons which believes that challenging such forms of discrimination is an important part of promoting health in old age.

Mr Robert Rose, chairman of the association, said: "Health and the state of one's mind are inter-related. The ability of people to work longer is very important to their emotional stability – which is all part and parcel of being healthy."

People over 65, said Mr Rose, had a rate of suicide and clinical depression more than twice the national average. One factor in those statistics, said Mr Rose, could be that the elderly have a self image of being worthless.

Mr Rose's organisation will next year press the European Commission to include an anti-ageist clause in its social Charter. "People should have more choice about when they retire," said Mr Rose whose organisation is independent of the American Association of Retired Persons – a very powerful lobbying group in the US.

Health and the state of one's mind ere inter-related. The ability of people to work longer is important to their emotional stability

Offering the elderly more say in their own affairs is a key part of health workers strategy for promoting greater independence among retired people. Many local anthorities, for example, are now actively seeking to involve the elderly in decision making.

Exeter District Health Anthority, for example, is involved in what it calls "locality planning" in its attempt to decentralise health service planning.

Planning teams, said Age Concern "involve the participation of both providers and consumers of health care at a very local level. Members include health professionals, elderly people, social workers, teachers, housing officers, police and representatives from voluntary organisations."

Age Concern said these teams were able to feed in bids for resources to the district plan and could make decisions about how money was spent.

The need for elderly people to have greater self-esteem and control over their own lives as part of staying healthy is a message also taken up by Miss Wendy Wakefield of Help the Aged, Britain's other large charity involved with the aged.

"People need to be encouraged to take care of themselves," said Miss Wakefield whose charity pnblishes a large number of self-help leaflets.

These are sponsored by a variety of businesses including Scholl, the Optical Information Council, British Gas and the Office of Fair Trading.

Fitter Feet is a leaflet sponsored by Scholl, the healthcare for feet and legs group. "There is nothing worse than sore and aching feet," it advises in the excellentsmall brochure which informs the elderly how certain problems may arise and the fact that people of pensionable age are entitled to free National Health Service chiropody treatment.

"Whatever people can do to maintain activity is important," said Miss Wakefield. For example, we know that a large percentage of elderly people have poor feet and if they ignore things like in-growing toenails it can lead to something more serious. People must be encouraged to take care of themselves. It's obvious that they will enjoy life more if they keep healthy."

Penultimate word

From Mr H. Wolfson.

Sir, I am a 93-year-old Scotsman ending my term in this small Israel seaside town and was interested to read about your forthcoming survey on Care of the Elderly.

I live in a 3-star hotel which, unusually, has about half its rooms occupied by residents, all ancients. All old people's homes are given euphemistic names, such as Golden Age, Happy People.

I suggest the language needs a generic term for retirement homes and put forward the following:

Geratrium: Greek *geras*, old age, Latin *atrium*, entrance hall or chief apartment of a Roman house.

Penultimate: Latin, *paene*, almost, *ultimus*, last: The one before the last resting place.

H. Wolfson,
Hotel Topaz,
Netanya, Israel.

Personal pension plans reviewed by **Eric Short**

Early starters gain security

THE TIME to start planning financial security for retirement is the first day of a working life.

This advice is not intended to be sarcastic or trite. It highlights the obvious: the earlier a person starts a savings scheme, the greater the amount accumulated to finance retirement.

In practice, it is extremely difficult for any person to do this by making their own arrangements. Young employees have enough calls on their pay – servicing a mortgage and meeting other family commitments – without having to consider retirement.

Besides, the state social security scheme and company pension schemes provide a means of imposing on employees an involuntary savings operation for retirement, thereby avoiding any decision about saving.

Employees start contributing to the state scheme as soon as they start work. With company arrangements, the employee joins a scheme usually soon after starting work and contributions are deducted at source.

However, the Thatcherite philosophy has been to make people stand on their own feet by cutting back on State pension provisions and discouraging company pension provision by imposing ever more legislative burdens.

At the moment, existing company schemes are standing up to the burdens imposed on them. But there are fewer new company schemes paying pensions based on an employee's final salary being established. More and more employees either have to make their own arrangements or are forced to rely on the state.

But such are the cutbacks in state provision that an employee who relies solely on this pension will have a bleak prospect in retirement.

Although the Government has introduced a variety of savings and investment schemes, the most convenient and tax efficient means of providing for retirement remains a pension scheme from a life company or other institution.

The new-style personal pensions, first issued in July last year, provide an ideal means of saving for retirement.

Contributions are paid out of gross income, investment is made in tax exempt funds, so the contributions are rolled-up gross and one quarter of the accumulated fund can be taken as a tax-free cash sum.

Expert financial advice can guarantee security in later years

There is now a £60,000 limit on earnings out of which contributions can be made on a tax-free basis and this cap is revalued each year in line with price inflation.

But it will be many years before this cap will affect more than a small part of the employed population.

However, financial circumstances dictate that most employees are unable or are unwilling to start saving until later in their working life.

The later the start of a pension savings, the higher the contribution level needed to provide an adequate pension.

The Inland Revenue accepts this feature. It has a scaled contribution rate which can be invested in personal pensions from the basic 17.5 per cent of an employee's earnings up to age 35, rising to a top rate of 40 per cent for individuals aged 61 or over.

There are a variety of personal pension plans on the market from life companies, building societies and unit trusts. Employees wishing to make adequate provision for their old age, need to take expert financial advice.

But personal pensions are not the sole financial vehicles individuals wishing to save towards their old age.

The new-style Personal Equity Plans match every aspect of tax efficiency as a personal pension, except that contributions have to be paid out of net income.

But against this disadvantage, the individual can take all Pep savings as tax-free cash, or can take out the income from the Pep plan free of tax.

With a personal pension, only one-quarter of the savings can be taken as tax-free cash, the remainder has to be invested in a taxable annuity.

Business expansion schemes, share option schemes and the like can all be used to provide additional capital for use in retirement.

Financial circumstances dictate that most employees ere unable or unwilling to start saving until later in their working life

Employees in a company arrangement should not necessarily adopt a complacent attitude that their financial future in retirement is secure. Employees often have to be members of a company pension scheme for 40 years before qualifying for a maximum pension of two-thirds of earnings.

Comparatively few employees attain this maximum benefit and the numbers are likely to decline as the working population becomes more mobile.

Employees in a company pension scheme can boost their benefits at retirement by paying extra pension contributions, known as Additional Voluntary Contributions or AVCs.

Employees interested in making AVCs have the choice of an in-house arrangement run by the company pension scheme or making their own arrangements through a Free Standing AVC from a life company or unit trust group, or a mixture of both.

The tax advantages of personal pensions apply to AVCs, but there are two drawbacks.

First, contributions to an AVC arrangement are limited to 15 per cent of an employee's earnings, less contributions already paid to the main company scheme.

Second, the accumulated savings under an AVC arrangement must be used to buy a taxable annuity. The tax-free cash has to come from the mainstream company scheme.

So, employees in company schemes wishing to boost their capital at the time of retirement, rather than increase their income in retirement, need to look at other forms of savings.

Peps are the obvious choice for employees willing to invest in equities – either direct, or through unit trusts or investment trusts, or both.

For those employees wary of equities, the long-serving with-profit endowment will meet the needs of a reasonable investment return at little investment risk.

The whole concept of pension provision in the UK is centred on people who are employed or self-employed. No thought has been given to providing pensions for people who do not work.

Such people have to rely on their partner for their pension – a housewife, for instance, has to rely on her husband's pension.

Alternatively, they have to invest in less tax-efficient savings vehicles, if they have resources, or look to the inadequate supplementary benefits system, if they have little or no savings.

However, if children are willing to support their parents either before and/or after retirement, then this has to be paid for out of net income – surely against the spirit of the Griffith report on private care for the elderly.

Eric Short

David Lawson investigates schemes for retirement homes

Sales rocket loses velocity

HOUSING FOR the elderly was one of the big commercial success stories of the Eighties. Suddenly, it was discovered that pensioners have money to spend and developers began to churn out purpose-built schemes ranging from intensive-care homes for the frail to estates planned with more tennis courts and pools than the average holiday camp. But clouds are gathering as the property surge deflates and sales grind to a halt.

Purpose-built homes for the elderly are not new. Local authorities and housing associations such as Hanover, Anchor and Orbit have a long history of providing groups of small flats centred on communal rooms and overseen by wardens. They recognised that the elderly often found it difficult to cope with large family homes once their children had left, particularly once frailty and illness set in.

Private developers showed little interest. The elderly might own a disproportionate amount of the nation's wealth but they were generally among the poorest sectors of society in terms of income and had relatively little to spare from their pensions for accommodation. Sales of retirement homes tended to be restricted to sea-side cottages and Spanish villas.

But a series of changes from the late-Seventies revolutionised this view. First, the Government urged a switch of resources into the private sector, much as it is encouraging privatisation of community health care today. That would have meant little on its own, but private pensions were beginning to raise spending power and, most importantly, property prices were beginning to soar again.

People who had bought homes for modest amounts many years before found themselves able to sell up for large amounts of cash. Many began to "trade down" to sheltered flats, often investing the surplus for income to supplement their pensions. Demand seemed assured. Public sector supply was dwindling at a time when the proportion of elderly people was projected to keep rising. More than 200 building companies jumped on the bandwagon, trailing the coat-tails of specialists such as McCarthy & Stone and Anglia Secure, which were producing the bulk of new schemes.

More than 40,000 private sheltered homes have been built, many of them since the mid-Eighties boom. The most common pattern involves one-bed flats in two or three-storey blocks crammed on to a town-centre site close to shops and public transport.

But the range has expanded enormously over the past few years. Luxury schemes have evolved, such as the groups of cottages built by English Courtyard Association in a scattering of country towns and the spectacular grandeur of Roman columns and antique furniture offered by Regalian's Chartcombe House overlooking Poole.

McCarthy & Stone spread its wings to cover nursing homes at one end of the spectrum to leisure-intensive schemes at the other for "pre-retirement" buyers.

However, speed of growth brought inevitable problems. Some badly-planned developments produced a stream of complaints. Service charges grew into a hot political issue, with accusations from MPs and welfare groups that elderly widows with little financial acumen were being exploited. Builders staved off threatened government controls by imposing a code of practice which warned novice builders that providing for the elderly was not a licence to print money.

Developments should be on level sites close to shops and public transport routes and service charges should be spslisd out in detail before bnyers made any commitments, said the new rules. The stricter regime of controls helped drive most non-specialists out of the market, bnt as soon as this problem had been solved, an even bigger one reared its head. Property prices began to crash, and sheltered housing has been one of the hardest bit areas.

Building rates have already been cut by 25 per cent to around 8,000 this year but more than half of those are still standing empty. Potential buyers cannot, or will not, sell their existing homes to "trade down", despite increasingly desperate measures by developers to pull in buyers. There is

Luxury retirement homes in Newbury, Berkshire

an element of choice because some elderly owners could find buyers if they reduced asking prices.

But as one specialist builder says: "Why should they? This is their main asset and they are under no great pressure to move. They are aiming to wait out the slump, so these problems could be with us for some time."

Builders are trying everything in their power to keep sales ticking over. McCarthy & Stone and Anglia, as the biggest suppliers, naturally have the largest number of empty homes to fill. They have already devised various schemes for limiting or deferring increases in service charges. Now they have dreamed up a battery of incentives to attract buyers, mainly aimed at helping sell existing homes.

This shake-up is reducing the range as well as the number of homes available to the elderly. McCarthy & Stone has sold its nursing homes to Bupa in a bid to rationalise. Its ambitions for whole retirement communities on lines seen in the US are also being stymied, with one scheme in Edinburgh already passed to another developer. The crisis has also given developers the opportunity to blame each other for making mistakes.

Jim Ditheridge of Bovis Retirement Homes says too many schemes have been badly thought-out. They reflect what developers think buyers want rather than their real needs.

"Contrary to the typical image, lifestyle in retirement does not mean lonely hours spent knitting or staring at the television," he says. Three times as many of his buyers had active pastimes, such as golf or swimming, rather than more sedentary hobbies. But they still want libraries, and most importantly, more room to entertain in bigger flats. Only half wanted the communal lounges which make up the heart of many sheltered developments and the vast majority would like two-bed flats.

McCarthy & Stone would not deny that there is a place for the active retired. In fact, it has been trying to stretch into the leisure-oriented market with many of its developments. But the average person buying one of its flats is a widow aged 75 or more, who will be more inclined towards a small, neat home and a warden on call than a plethora of pools and tennis courts. Statistics also show that the biggest growth over the next decade will be among people aged 80-plus, who will lead far more sedentary lives.

Renting in general may be an alternative solution to buying, as the elderly seek to release capital for their children rather than transfer it into a new home. Some developers are already trying this out in homes left empty because of the sales slump. McCarthy & Stone, for instance, has helped set up a business expansion scheme catering for elderly renters.

The scope to serve a group that will make up almost a fifth of the population within a decade is enormous. But it will require sensitivity and careful planning to eradicate faults which have become so plain in the last 10 years.

HOME CARE

Catering for cash-poor owners

ONE SMALL fact often lost in the fury of sheltered-housing development over the past decads is that many slderly people either cannot afford to move or would prefer to stay in their existing homes.

Pensioners represent both the richest and poorest sectors of society, depending on their background. The richest slice, who own three-fifths of the *nation's wealth, have tended to* hog the headlines as builders and financial groups extrapolate the potential business in specialised homes and annuity sales from a stock of almost 5m elderly home-owners.

Certainly many pensioners are property-rich but cash-poor. Their homes have often soared in value while incomes remained relatively fixed. But many of those homes are still not worth tha amount needed to trads for a purpose-built flat with a hefty service charge and ground rent. Every 10 years the government survey of UK housing conditions shows that the elderly live in the oldest and worst homes. The home improvement grant system is about to be revolutionised in an attempt to combat the fact that pensions are often too meagre to stop this rot through repairs and renovation, although welfare groups believe the red tape will deter many elderly owners.

The problem may, in fact, become worse as the right to buy council tenancies is extended to the elderly. The Government has been trying since 1979 to enable houses "suitable for the elderly and disabled" to be opened for sale at hefty discounts – partly because it knows these homes are among the oldest and most expensive to renovate. It was defeated by campaigners in the House of Lords until measures were pushed through in this year's Local Government and Housing Bill.

Thousands of homes could switch into private ownership. Mr Michael Howard, the Housing Minister, pointed out that 6,000 tenants had been refused permission to buy in the past three years because of the restrictions now overturned. But welfare groups fear many of these elderly people may find it hard to pay for repairs and upgrading normally handled by local anthorities and new towns authorities. They says most will already be on housing benefit, which should smooth the path to state aid. But the traumas of hefty paperwork will again prove a barrier to take-up of help.

More than 100 agencies are already involved in helping the elderly throngb stay-pnt and care-and-repair schemes, says Mr David Bookbinder of Age Concern. In fact, the number *has grown so quickly* that HASOP, the definitive guide to these services* he helped set up two years ago, is having to be extensively revised. Bnt demand is even greater than supply. The irony is that many of the schemes, which bring togetber local authorities, bousing associations, building societies and voluntary groups, are chary of publicity as they could be overwbelmed with work. The HASOP directory is aimed at potential organisers rather than consumers.

"Most elderly people are still not covered," he said. "If, for instance, all the eligible owners in Lambeth heard what was available, the services would not be able to cope."

These groups cannot provide financial assistance for repair and improvements, just advice on where to go for funding and a helping hand with the paperwork. They liaise with government departments and building societies on grants and possible finance, estimate the kind of repairs a house may need and organise the estimates and contracts, or advise on alternative types of accommodation such as sheltered housing. If possible, they try to cover their costs through a fee added on to grants, but much of their funding comes from government funding.

Ministers are very keen on agencies but are even more enthusiastic about private sector involvemant. So, housing groups are being kept on tenterhooks over a monitoring report by Bristol University researchers dne in the new year. Some fear funding could be reduced in favour of more local anthority partnerships with the private sector.

The two leading sheltered housing builders have already spread into home-stay services. Haven Services, the management subsidiary of Anglia Secure, is offering the same 24-hour monitoring service it provides to more than 100 private devslopments. Panic bnttons and telephones will be linked into a centre which will assess an elderly person's needs from their records and call out emergency services.

The next stage will be a network of agencies to provide bome nursing care. Tbe scheme is obviously geared to local authorities and housing associations being urged by the government to use private agencies for community care. Home repair, financial and insurance services will also be part of the package evolved for sheltered-home buyers but spun off to the elderly living in their own places.

McCarthy & Stone management arm, Peverel, is also capitalising on the expertise developed in looking after more than 15,000 retirement homes. As a counterpoint to retrenchment by the parent group from areas such as nursing homes to overcome problems in the slack market, Peverel is branching ont to link with Home For Life. The Rosehaugh subsidiary offers to buy the homes of elderly people, but as its name implies, allows them to remain there for their lifetime. This sort of scheme is becoming common among financial groups which offer ways of extracting capital for those people who want to live off the income or hand over the cash to children rather than bequeath their home.

Peverel will inspect and repair homes and offer the same sort of 24-hour emergency monitoring services as its own tenants receive. "One of the main reasons why people move into sheltered housing is for safety and security," says Mr Nigel Bannister, the managing director. "We will now be able to offer this in their own home." He also intimated that Peverel could look towards provision of medical services along lines suggested by ths white paper.

But Mr Bookbinder of Age Concern is not convinced thet the private sector will be able to provide the sort of help coming through community care and care-and-repair agencies. Even the idea of making these bodies self-financing could be questionable.

"Emergency alarm systems are all rigbt as far as they go, bnt they cannot deal with the real problems of loneliness and *isolation*," he says. *Meanwhile*, bousing agencies would find problems charging enough for the tims they spend advising on repairs and other services. If an owner decided not to go ahead with building work, there would be no way the agency could recover its costs by taking a slice of the grant. That might mean charging up front for services, which would deter the very people they were aiming to help.

In the same way, private agencies could not provide home medical care unless the owners or their local authority had sufficient resources. Again this would leave a rump of elderly without this care.

** The Directory of Housing Agency Services for Older People (HASOP), price £3. Age Concern England, 60 Pitcairn Road, Mitcham, Surrey CR4 3LL.*

David Lawson

ARTS

Tom Conti: an armament of wry grins

Treats

HAMPSTEAD THEATRE

Continuing its curious new policy of reviving the lesser work of established dramatists, Hampstead Theatre has dusted down Christopher Hampton's 1976 brittle, episodic three-handed comedy.

So far so fair. But Geraldine McEwan's production is so bizarrely miscast that the post-Ibsenite play "in which the heroine would slam the door and come back" (Hampton's own words in the programme) becomes something quite different: the ruination of a perfectly plausible, though dull, relationship between two young office colleagues by a middle-aged monster whose sexual vanity outstrips any semblance of social tact.

Tom Conti plays the appalling Dave, a chaotic journalist who returns from an assignment in Beirut to find that his girlfriend Ann has given away his dog and installed the office wimp, Patrick.

In the original, Dave and Patrick were played by James Bolam and Stephen Moore as fully contrasting contemporaries with an equal claim on Jane Asher's poised and glacial beauty. But when Conti punches Peter Capaldi viciously on the nose and turns casually to enquire after his mail and messages, we are in the company of a rather pathetic, superannuated bully.

In addition, Julia Ormond, who has just crossed town after appearing as the suicidal heroine of Hampton's version of von Horváth's *Faith, Hope and Charity* at the Lyric, Hammersmith, has a waif-like sexual vulnerability that completely undermines the pivotal decisions Ann takes in the play, not least the final one of trapping the inky Don Juan in a conventional relationship.

The actress's wonderful girlishness is at odds with her lines, not all of which receive a proper technical consideration. Ann comes across as merely petulant, while Dave seems like a dirty older man.

I am not convinced that the contrariness of this interpretation is intended. Which makes the whole exercise pointless, beyond reminding us of Hampton's great gifts. His stage action is beautifully contrived. The punch on the nose leads, finally, to a slap on the face. Long wordless passages are pregnant with hesitations and fear. Brief exchanges – "What was Patrick like in bed?" "No worse than you" "No wonder you got rid of him, then" – bristle with tortuous antagonisms and mockery. Hampton is incapable of writing an inelegant line.

A faint echo of the Gribsby scene in the four-act *Importance* – Dave claims to be still stomping at the Savoy; it's a question of waiting till he can afford to pay the bill – reinforces Hampton's Wildean sense of style and morality.

Unlike Wilde, though, Hampton writes deeply about sexual impulse and vagaries, and there is a sharp retrospective link here with his brilliant, Oscar-winning adaptation of *Les Liaisons Dangereuses*. But Peter Capaldi's lost and vinegary Patrick plays up the mother's boy side of the character's docility at the expense of his genuine attachment to Ann.

This leaves the stage clear for Conti, in renewing the association with an author who provided him with his first breakthrough (as the Brazilian terrorist in *Savages*), to clean up as the testily inconsiderate Glaswegian.

The armament of wry grins and drowsy oeillades does its familiar work; I lost count of the number of times the Conti fingers are pushed backwards through the still cascading glossy coiffure. But the stricken realisation of what might now happen is a fine piece of acting.

Michael Coveney

ARCHITECTURE

Money-lenders in the temple?

As Christmas approaches, the attention of of even the *least Christian soul* must be drawn briefly to the Church. After all, our parish churches and cathedrals are the walls that have sheltered the steady accumulations of faith in these islands. That curious body, the Church of England, shepherds its dwindling flocks as best it can, and does seem to win a timeless loyalty from those who are not apathetic to religion.

There are so many obstacles to the preservation and protection of church buildings. To read the published reports of the Church and all the words produced by the societies and groups that huddle under its Anglican wings and worry about the state of the fabric is a confusing business. The endless string of legislation, grants and committees appears to have been designed to baffle the layman as much as possible.

Most people judge the Church's record by what they see in their own area. It is mixed. In the inner cities, the toll of demolitions and losses of church buildings is depressing; in the country, the sight of the vicar on his moped hurtling around his "combined parish" is now familiar – somehow the tiny congregations do survive.

There is, alas, another side. I recently had sent to me a depressing list of "Redundant Churches Available for Disposal." Under the provision of the Pastoral Measure of 1983, the Church Commissioners can dispose of unwanted churches if they do not make it into the care of the Redundant Churches Fund. At the moment, allowing for some of them to have been snapped up already, you could buy the following.

St. Paul's, Bristol, a notable example of late Georgian architecture built in 1789-94. Two smaller Victorian churches are also available in the Diocese of Bristol.

There is a fascinating late 15th-century church, St. Michael at Pitsea on Canvey Island with considerable additions by *Sir Arthur Blomfield.*

A handsome example of the work of that underrated church architect, Sir Charles Nicholson, is available in Grays in Essex, and there is the huge Victorian church of St. Hilda, almost in the centre of Darlington. In the Diocese of Ely you could buy the church dedicated to St. Edmund that has stood in the valley of Walpole Highway, between Wisbech and Kings Lynn since the 1840s.

If you aspire to something grander, there is a fine example of the work of Sir George Gilbert Scott at All Saints in Gloucester, about half a mile from the cathedral. You may well prefer something earlier. Then may I suggest St.Nicholas at Great Munden, a modest and beautiful Norman church in open fields outside Bishops Stortford? You could commute.

Think of the pleasure of owning a church by Benjamin Ferrey, that great pupil of Pugin. Not only would you have all the attractions of Ferrey's particular version of the Late Decorated style, but fine views outside the lovely village of Plush in Dorset. The 14th-century church of St. Michael outside Newark in the small hamlet of Cotham would place you under the agreeable auspices of the Diocese of Southwell. But it may be isolation you seek, in which case Holy Trinity, Bolventor, half way across Bodmin Moor, would be ideal; easy access from the A 30 too. Another Cornish candidate is available – a 19th-century church in open country between Truro and Redruth.

Not all these churches are entirely suitable for residences, but the Commissioners are sympathetic to a wide variety of uses. Merely as an example of the catholic nature of the Commissioners' views on the future of redundant churches, may I draw your attention to the *still* outstanding case of of St.Mark's, North Andley Street in Mayfair. For some years the Church authorities did their best to see that this fine Regency church with a rich Victorian interior should become a "Garfunkles" Restaurant. Although the architects for this proposal described it as a high class restaurant with the atmosphere of a gentleman's club, by any other name it was to become a fast-food joint. Mercifully this proposal did not succeed and the London Diocese are now negotiating to sell a lease to an "up-market bank." Money-lenders in the temple?

It is not just redundant churches that we should pray for. Many vicars enjoying the privileges of ecclesiastical exemption from planning controls are also enjoying dividing up the church into "worship areas" and coffee shops. I saw one the other day in Middlesborough – a rather fine church by the well named architect Temple Moore, where the vicar had built a huge greenhouse in the nave which was full of potted palms and Parker Knoll chairs for coffee mornings. It had an incongruous cosiness.

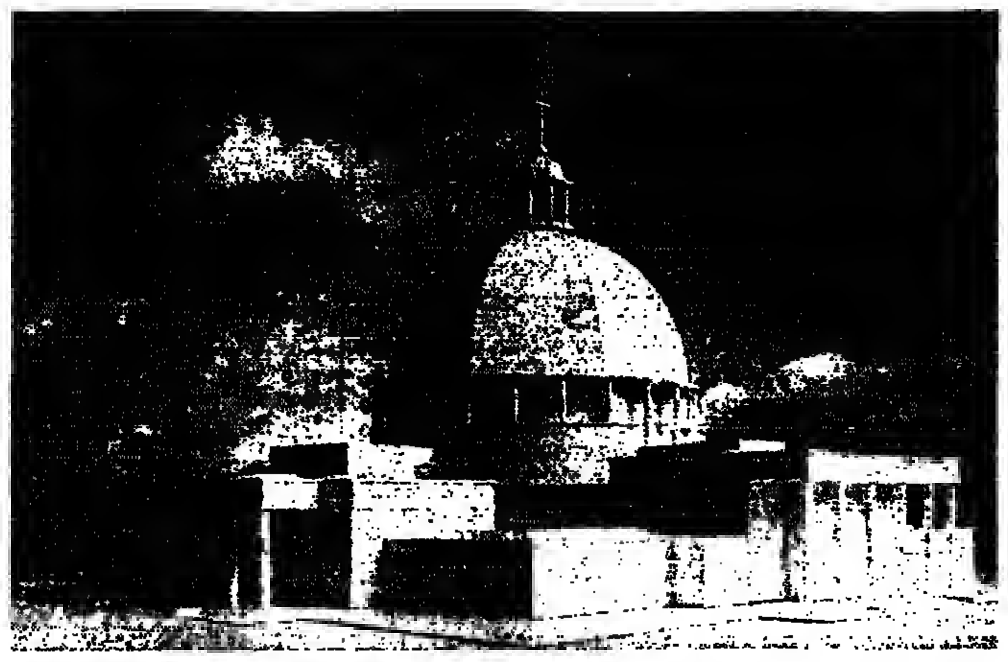
Even cathedrals are not safe from the depredations of the clergy, although a new Care of Cathedrals Measure, which soon comes into force, may help. Recently the Dean succeeded in bashing a hole in the Romanesque arcade at Norwich cathedral; there are worrying plans afoot for "visitor facilities" to be added on to the cathedral at Salisbury; and a terrible new Treasury at Ripon has not exactly improved the 7th century crypt.

It is a struggle that is made very clear in the Church Commissioners' Annual Report and Accounts. This document does not mention God or Christ, but is full of charts and diagrams that show how well the necessary investments are doing. Under the heading "Progress Continues," diagrams show how many parsonages and churches have been sold: 188 last year. Since 1969, 1,353 churches have been closed. Oddly enough, sales of church sites do not produce a lot of cash. In 20 years only £13.6m has been raised this way. Some of the money has been spent on new churches and, I quote, "other places of worship."

Churches are important beyond their physical fabric. They do not convert well to other uses: they should not be houses because they should always be public centres. How odd it is to see the line of washing in the churchyard and be unable to visit a site consecrated by our ancestors. Do we need a National Trust for Churches, or some other way of ensuring that there is no such thing as a redundant church? The implication of that dreadful phrase is that God is redundant.

Perhaps there is hope in the new proposals for a city church in Milton Keynes, that bring together an extraordinary marriage of God and mammon. New office blocks will fund this domed "ecumenical worship centre" that is to be designed by Planning Design Development Ltd. of the town's Development Corporation. The dome dominates, but how clearly the whole development states the Church's dilemma. Christmas brings these problems into temporary focus, but the fate of the spiritual fabric of England will remain a huge problem long after the cribs are packed away.

Colin Amery



An extraordinary marriage of God and mammon: new office blocks will fund this domed "ecumenical worship centre" in Milton Keynes

Whale

LYTTELTON

The drama of Siku, Putu and K'nik, the three grey whales trapped in Arctic waters at the end of last year, has already done its bit to secure the whale its rightful place in the conservationist conscience. They resurface in David Holman's contribution to the National's Christmas festivities – an elegant piece aimed at children from seven to 12, which uses dance, drama and English and Inuit languages to chart their *Incredible Journey*.

And how styles have changed since that earlier animal epic. To his credit, Holman steers well clear of anthropomorphising his subjects, which are represented in the conventions of dance-drama by the surge and slither of two silver, shaven-headed figures who are swept, intertwined, through ice holes in the stage and then plunged back down again.

Their plight is the focus of a narrative which functions on two levels. The suspense story of the campaign to save the whales is offset by the creation myth of Sedna, an Inuit girl drowned by her lovers, whose lopped-off fingers stocked the seas with fish, and whose tangled hair kills them when she becomes depressed by mankind's mistreatment of her.

As the news of the whales' predicament sweeps from the Alaskan wastes to the golf links of California and the White House itself, no thanks to Toyah Willcox's hard-bitten DJ, Sedna (Suzette Llewellyn) wanders around like a wraith under the eye of the Raven, a beaky *deus ex machina*, acrobatically played by Emil Wolk, who spends much of his time *hovering on a trapeze*.

Emil Wolk

Tim Supple's production is to be admired for the challenge it throws out through its audacious mix of styles and disciplines. Differing languages of performance are complemented by use of the Inuit language.

The problem, strangely, given the scope of the show's concerns, is maintaining the narrative drive to carry it through the second act. The death of one of the whales and the arrival of a Soviet icebreaker to save the remaining two makes one wonder where it can go from here.

There is a note of desperation about the eleventh-hour introduction of the ghost of Charles Scamman (Peter Caffrey), an old sea dog who convinces Sedna to let the whales go. But I guess it all adds leaves to the accompanying education pack.

Claire Armitstead

Le Postillon de Longjumeau

GRAND THEATRE, GENEVA

In the absence of a coherent opera programme in Paris in the past two or three years, it has been necessary to look elsewhere for properly planned and rehearsed performances of French repertoire.

The current Geneva season began with *Manon*, bewitchingly sung by Catherine Malfitano and conducted by Armin Jordan with immense conviction and finesse.

Now comes Adolphe Adam's *Le Postillon de Longjumeau*, which makes ideal family entertainment for Christmas. The New Year will bring *Ariane et Barbe-bleue* (to be broadcast on Radio 3) and *Les Contes d'Hoffman*.

Adam's *Postillon* is the kind of work most opera-goers know about, but rarely have a chance to encounter in the theatre.

It belongs to a whole genre of French light opera which seems to have gone out of fashion, and which demands an elusive natural style: vocal elegance, ease with the language, and a bracing lightness of *touch*.

I first came across the famous Act 1 tenor aria, with its coachman's whip accompaniment and treacherous high Ds, on a German-language recital disc by Joseph Schmidt: apparently, the work used to be a favourite in the German provinces.

Bjoerling and Gedda are other voices that come to mind – but one searches in vain for their natural successors.

Ideally, *Le Postillon* should be heard in *one of those* dilapidated horseshoe theatres scattered around the French provinces, where the atmosphere is intimate and the audience can respond. The Grand Theatre is a bit large.

Madeleine was sung by the Canadian soprano, Donna Brown, Chapelon by the Mexican tenor, Jorge Lopez-Yanez. Both have fresh, attractive voices, but it was obvious that French is not their mother tongue. They lacked the size of personality to break through the proscenium frame and provide a strong centre-piece for the performance.

Whenever more mature players, like Rene Massis's Bijn and Veronique Mattana's Rose, took to the stage, the dialogue – and, indeed, the whole stage atmosphere – suddenly came alive.

The production was by the film director, Nina Companeez. Experienced directors coming to opera for the first time tend either to swamp the work with ideas, or become so thrown by the musical time-world that they under-produce.

Miss Companeez veered *towards the latter, though at* least her ensembles were musically composed.

Thanks to Thierry Bosquet's exquisite painted gauzes and tastefully over-the-top costume designs, the stage picture was always appealing, suggesting the idealised, unreal world of innocent imagination.

The Orchestre de la Suisse Romande, conducted by Patrick Fournillier, played as if it knew and loved this charmingly uncluttered score.

Andrew Clark

Dmitri Hvorostovsky

WIGMORE HALL

The Russian baritone who last June won the BBC's Cardiff Young Singer of the World competition gave this week two Wigmore recitals. He was originally scheduled for just Friday's, but when the Wednesday date fell free (as a result of another artist's cancellation), that provided a timely way of accommodating some box-office overflow.

Friday's concert brought a whiff of pop-music hallyhoo into these normally chaste spaces: cheering crowds, ecstatic flower-proffering and standing-ovations at the close; and in the audience some of the toppest top brass of the opera and record world (I believe that Wenesday's event was the same, only more so). One fears for this 26-year-old with the Tartar good looks and the platform demeanour of a proud young lion: he has the world at his feet, and for a young artist in need of further development that's a perilous situation indeed.

The voice is one of the most beautiful I have ever heard. It is at once dark – darker than that of his great Russian baritone predecessor Lisitsyan, with whom he is already *frequently compared – and malleable*, Russian in characteristic depth and soulfulness of timbre and Italianate in smoothness of use.

On this occasion the very top lacked force (a couple of Rakhmaninov songs in the second half and the encore from Chaikovsky's *Mazeppa* took him up to G and A flat), but that may have been no more than forgivable tiredness.

The evenness of the instrument, and the way the tone "expresses" itself across an enormous dynamic range, are simply astonishing and, at times, simply – animally – thrilling. The final encore, an unaccompanied Russian folksong, showed the instrument and its possessor at their extraordinary best.

As a recitalist, however, Hvorostovsky is not yet at all times very interesting. His choice of songs – Chaikovsky in the first half, Rakhmaninov in the second – favoured the slow and sad, but his palette of shades and nuances (verbal and colouristic) is at this stage insufficiently varied, his imaginative range not always equally engaged, to carry the sequence.

I don't think it is true to say, as one heard in the interval, "Oh well, he's really an opera singer." The ability to focus on small musical happenings, to be alert and vivid, did flicker through several performances – Chaikovsky's "Don Juan's Serenade" was far more than the usual applause-winner, and Rakhmaninov's "Christ is risen" had a streak of grand, bitter pathos that was original and genuine.

It would be nice to think that this extraordinary young man might now work with the *Graham Johnsons or Geoffrey* Parsons of the West, stretching and encouraging him further (he had saddled himself on this occasion with a lamentable pianist, who banged and splashed unmercifully when not fading unhelpfully into the background). Hvorostovsky desperately needs the right sort of grooming and nurturing, the right sort of challenges: his potential is fabulous.

Max Loppert

ARTS GUIDE

December 15-21

MUSIC

London

City of London Sinfonia conducted by Richard Hickox. Handel's *Messiah* (Tues). Barbican Hall (638 8891).

London Symphony Orchestra conducted by Richard Hickox, with the Swingle Singers. Christmas music (Wed). Barbican Hall (638 8891).

Paris

Ensemble Intercontemporain conducted by Pierre Boulez, with Maurizio Pollini (piano), Frederic Stochl (bass). Dutilleux, Berio, Boulez (Mon). Chatelet (40282840).

Bolshoi Opera Orchestra and Choir conducted by Alexandre Lazarev. Prokofiev, Tchaikovsky, Borodin (Tue). Salle Pleyel (45638873).

Orchestre de Paris conducted by Alain Lombard with Bruno-Leonardo Gelber (piano). Barber, Beethoven (Wed, Thur). Salle Pleyel (45630796).

Amsterdam

Jessye Norman (soprano) with Alain Marton (flute) and Charles Spencer (piano). Handel, Strauss, Mahler, Ravel, Falla (Mon). Concertgebouw.

Brussels

Liège Philharmonic Orchestra conducted by Pierre Bartholomee and the Cantores Chorus conducted by Aime de Haene. Beethoven (Wed). Palais des Beaux-Arts.

Vienna

Wiener Philharmoniker conducted by Christoph von Dohnanyi. Lutoslawski, Richard Strauss, Berlioz. Musikverein (Sat, Sun).

Oleg Maisenberg piano recital. Scriabin. Konzerthaus (Mon).

Madrid

Daniel Barenboim (piano). Beethoven (Tue). Auditorio Nacional de Musica (337 01 00).

Spanish National Orchestra and Choir conducted by Jurgen Jurgens. Handel (Wed, Thur). Auditorio Nacional de Musica (337 01 00).

Trio de Madrid with Joaquin Soriano (piano), Carlo Bergonzi (tenor). Rachmaninov, Haydn, Mozart, Schubert (Thur). Auditorio Nacional de Musica.

Milan

SCM Symphony Orchestra. Mendelssohn, Tchaikovsky (Wed). Conservatorio G. Verdi (76001755).

Rome

Uto Ughi (violin) playing sonatas by Schumann, Franck and Prokofiev with pianist Maria Argerich (Wed). Teatro Olimpico (393304).

Cologne

Bamberg Symphonic Orchestra and Lucia Popp, conducted by Horst Stein. Sibelius, Strauss (Wed). Philharmonie.

Ludwig Güttler (trumpet) and the Dresden Brass Group play Christmas songs from the 16th-18th century (Thur).

Berlin

Berlin Philharmonic Orchestra and pianist Joaquin Achucarro conducted by Yehudi Menuhin. Corelli, Mozart (Thur).

New York

New York Philharmonic, Zubin Mehta conducting with Gerry Mulligan and the Mulligan Quartet. Beethoven, Mulligan (Tue). Zubin Mehta conducting with Pro Arte Chorale directed by Bart Folse and New York Choral Artists directed by Joseph Flummerfelt. Schumann, Beethoven (Thur). Avery Fisher Hall (874 6770).

James Galway flute recital with Carter Brey (cello) and Phillip Moll (piano). Mozart, Fauré, Debussy (Mon). Carnegie Hall (247 7800).

Oratorio Society of New York conducted by Lyndon Woodside. Handel (Tue). Carnegie Hall (247 7800).

Washington

National Symphony conducted by Nicholas McGegan. Handel (Mon). Kennedy Center Concert Hall (467 4600).

Tokyo

Shinsei Nihon Symphony Orchestra, conducted by Dieter-Gerhardt Worm. Beethoven, Schubert. Tokyo Bunka Kaikan (Mon) (988 1558).

Luciano Pavarotti with the Tokyo Philharmonic Orchestra. Donizetti, Mozart, Verdi, Puccini, etc. Nippon Budokan Hall. (Tues) (403 8011).

David Byrne

TOWN AND COUNTRY

David Byrne has ventured away from Talking Heads in the past, but the appearance of his album *Rei Momo* this year seemed to signal the final fission of what was perhaps the most accomplished and original band of the 1980s.

It's been confirmed that there will be no more touring Heads, but more albums have not been ruled out. Meanwhile Byrne is touring with the Brazilian musicians who provided the backbone of his latest solo project, and offering definitive proof that his powers as an inventor and performer are undiminished.

As a stage performer, though, he is changed; the twitchy, stylised alien of the Talking Heads concerts has been replaced by a boyish collaborative enthusiast, delighting in the exuberance and collective virtuosity of this extraordinarily talented bunch.

He was supported by the singer Margarethe Menezes, who as well as providing background vocals and a focus of physical energy to match Byrne's own perpetual motion, demonstrated her own star-quality in three songs.

Byrne has compiled and released two discs of Brazilian musicians, but what he's doing now has grown naturally out of his work with Talking Heads – the development mapped in their albums of the 1980s right through to *Naked* last year with its appropriation of world music flows over into *Rei Momo's* exuberant dance explorations.

The layers of salsa that underlie this new set of songs are built in just the way that the finest songs of the Talking Heads were made, while Byrne applies his distinctive modulations and modal tinges to the vocal lines.

The results are equally special: a number such as "Independence Day", one of the highlights of Saturday's show, with the whole 15-piece band working at full voltage, is as physically exciting as any of the great Heads' set pieces like "Burning down the House" or "Take me to the River".

Songs like "The Rose Tattoo" and "Make Believe Mambo", in which Byrne worries away at the problems of urban America, create a weird dislocation between text and Latin rhythms, and while the style seems likely to attract a whole cadre of admirers, it will also take many Talking Heads followers with him into the 1990s.

Andrew Clements

FINANCIAL TIMES
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Monday December 18 1989

Labour's new democrats

BRITAIN'S Labour Party is changing from an organisation led by socialist romantics into something like the Democratic Party of the US. Under Mr Neil Kinnock the party has travelled a long way in this welcome direction, but it has not yet arrived. Ona big burdle is its relationship with the trade unions. The result is that the bloc vote, which means the vote of union bosses, still dominates proceedings. At the same time, Labour policy is caught between policies the unions will accept and policies that Mr Kinnock and his colleagues perceive to be what most voters will stand for. Voters will be rightly suspicious of this aspect of the party until its structure is seen to involve an association with the unions as loose as, say, that between the Democrats and the American Federation of Labour-Congress of Industrial Organisations.

Events are propelling Labour in that direction. The recent deselection of Mr Frank Field at Birkenhead is only one of a series of deselections in which the 40 per cent of ths vote reserved for trade unions has played a dominant part. Mr Field's case is complicated by the involvement of the far-left Militant Tendency; this alone is enough reason for Mr Kinnock to seek a solution that demonstrates that Labour is free of such infiltration. Mr Field is a politician of strong character and indspendent thought who is recognised as an asset to the party, in spite of the perhaps understandable irritation sometimes felt by some of his more conformist colleagues. A way of overturning the Birkenhead deselection is therefore being sought. But the reinstatement of Mr Field would not be sufficient.

Moderates' fear

What is required is the abandonment of the 40 per cent rule and its replacement by candidate selection on the principle of one vota per local party member. Labour moderates fear that militants would find a way of taking advantage of such a procedure, perhaps by packing the local parties, but it is up to Labour to structure its party, and its rules, to ensure that genuine constituency majorities prevail. The sama principle applies nationally. If a proposal on candidate selection is to be put forward at the autumn conference next year, the opportunity should also be grasped to rid the party of the bloc vote in its entirety at all levels, including ths conference itself. A compromise, reducing but not eliminating the power of union bosses, would be the worst outcome, for tha moderating influence of the mainly right-wing unions would be lost, while the electoral damage caused by the trade union presence at conference would persist.

A step forward

Labour's policies on trada union legislation also require further work. One significant step forward was taken at the weekend by Mr Tony Blair, the party's new spokesman on employment. Using tha European Commission's proposed Social Charter as a prop, Mr Blair said that the "crucial elements" underpinning both the charter and Labour's Policy Review are "their acknowledgement of the importance of enforceable individual rights; the belief that they are not incompatible but are complementary to collective action; and the ability to enforce these individual rights, when necessary, against employer and trade union." This emphasis on "the individual rights of people at work" leads Labour to favour a right to join or not to join a trads union. The pre-entry closed shop is abandoned.

Mr Blair also highlighted Labour's insistence on a right to strike, and on the protection of lawful strikers from dismissal. The key concept is "lawful." But what about wildcat strikes, fines on trade unions, sequestrations, and secondary picketing? The argument that the balance of power between management and unions is the central issue was abandoned and replaced by an individual rights approach in Mr Blair's speech yesterday. The Labour Party will benefit if he develops that thought, and casts aside the fine compromises contained in the policy review. Tory union legislation is a widely admired achievement of Mrs Thatcher's prime ministership. It may be improved by amendment, but near-wholesale abandonment would be a retrograde step.

Mr Parkinson's lack of vision

IF THE PROBLEM were not so serious, one would be tempted to howl with laughter. Car usage is expected to more than double in the next 35 years, yet Mr Cecil Parkinson, the Transport Secretary, srgues that already chronic traffic congestion can be cured by preventing cars stopping on priority rontes, raising parking fines, improving signposts and other trivial improvements in "traffic management." He knows that environmental considerations rule ont a significant increase in road capacity, yet he illogically opposes any attempt to reduce demand for scarce road space.

Mr Parkinson thinks he can control congestion in London by establishing a 300-mile "red-route" network of priority roads. Stopping and loading on the red roads would bs severely restricted. A traffic director would be appointed to ensure the "coherent development and operation" of the network. Higher parking fines would be levied and traffic wardens would be given enhanced powers to authorise removals and wheel clamping.

Engineer's approach

A wheeze such as red roads is exactly the kind of solution likely to find favour at the Department of Transport. It has always adopted an engineer's approach to traffic problems. In the years when public money was plentiful, it sought a cure for supply/demand imbalances in the construction of new roads. Unable to do much building in the austere 1980s, it has laid increasing stress on technological solutions such as traffic lights which respond to traffic density. It is now keen on developing in-vehicle electronic route guidance systems to help drivers evade bottlenecks.

Traffic flow management of this kind may help at the margin. But any easing of congestion is likely to be short-lived. The reason is that if road speeds increase even fractionally more people will use their cars. Those who place great faith in red routes should take a look at the M25 motorway during rush-hour. The road is already scarlet: stopping, loading and parking have always been prohibited on motorways. But this does not prevent long tailbacks, which are caused by nothing more complex than excess demand for road space.

There are two ways of alleviating traffic congestion in London. The first is greatly to improve public transport in the hope that fewer people would then want or need to use their cars. Consultants commissioned by the department to investigate solutions to specific bottlenecks did indeed recommend significant improvements, including an extension of the Underground's Northern line in south London and a possible light railway in the west. Mr Parkinson has deferred decisions on such projects, but his discussion paper claims that "public transport improvements are unlikely to achieve major rednctions in road traffic and congestion." So it would be unwise to expect much joy.

Price mechanism

The second and potentially more powerful remedy is to use the price mechanism to influence demand for road space. In deciding when and where to use their cars, motorists take account only of costs and benefits to themselves. The introduction of road pricing would achieve a permanent improvement in traffic flow by making motorists take account of the external costs (in the form of congestion and pollution) they impose on others.

Mr Parkinson has ruled out road pricing on the grounds that it would unfairly price poorer drivers off the roads. This is nearly as lame an excuse as the department's objection that it would be "hard to determine the exact area to be charged." In any market, prices bear more heavily on the poor than the rich. But this is an argument for welfare payments not for the Soviet-style queuing that presently occurs on UK roads. In fact, if road pricing was accompanied by investment in public transport, the really poor – those who are dependent on unreliable buses – would benefit considerably.

Overseas experience suggests that road pricing is a practical possibility. Labour Party politicians seem closer to accepting the logic of this policy than Mr Parkinson.

Martin Wolf examines Poland's ambitious economic stabilisation plan

The thorns that crown the struggle

Now on the verge of agreement with the International Monetary Fund on a tough stabilisation programme, the Solidarity-led Government of Poland is taking on the hardest possible task: to break the spiral of inflation as a precursor to an exceptionally ambitious programme of economic reconstruction. Every step will be difficult, but the first three months of 1990 will be the hardest of all. Those few months will make or break the attempted reform and, in all probability, the Government.

For the Government's supporters – on the basis of the results of the election last June, the overwhelming majority of the population – the hardships to come are the thorns that crown years of struggle. Ironically, the hardships will be greater than in neighbours like Czechoslovakia and East Germany, because of the irresponsible policies adopted by the Communists in the past two decades, in their vain effort to procure the acquiescence of a restive population.

Poland today echoes Argentina six years ago. In December 1983 the world watched with pleasure as Mr Raúl Alfonsín became the democratically elected President of debt-laden Argentina. Like Poland, Argentina had experienced more than 40 years of inward-looking, state-led industrialisation; like Poland, Argentina had suffered from an unpopular, military-led government; like Poland, Argentina had a powerful labour movement; and like Poland, Argentina was menaced by hyper-inflation. But unlike Poland – one hopes – a weak government frittered away its opportunity.

Mr Tadeusz Mazowiecki will be Poland's saviour – or Poland's Alfonsín. The risk that Poland will become Europe's Argentina is no small one, but the consequences would be far graver. Poland is located, not on the southern tip of south America, but on the highway between Moscow and Berlin. As the first eastern European country with a non-communist government it is also a test case for democratic economic reform.

With the first non-communist government in eastern Europe, Poland is a test case for democratic reform

Encouragingly, the economic team under the direction of Mr Leszek Balcerowicz, Deputy Prime Minister and Minister of Finance, has a clear conception of the goal, the opportunity and the risks. Right at the head of the Outline Economic Programme of October 1989, one reads that the "objective is to set up a market system akin to the one found in the industrially developed countries. This will have to be achieved quickly, through radical actions."

"We are embarking on the reshaping effort under extremely adverse conditions. The economy is in ever more tenuous disequilibrium . . . The ecological disaster, the housing crisis, the foreign debt burden, emigration by ths most active part of the young generation – these have been swelling for years. In recent months additional crisis symptoms surfaced or mounted in force: a rapid price climb linked with a wage explosion, the flight from the zloty, the growing deficit of the state budget and also a drop in output."

The Government has radical plans for economic liberalisation and reconstruction. But these will be pipe dreams if the economy is not stabilised – and soon. Poland stands on the brink of a true hyper-inflation, with prices rising in the four months from July to November at a rate of 5,800 per cent a year (40 per cent a month). No market economy, least of all one as fragile as that to be created in Poland, can function in these circumstances.

There were three stages in the rake's progress that brought Poland its present hyper-inflation. The first was the attempt by the Gierek Government of the 1970s to buy the acquiescence of a sullen population by borrowing abroad. The legacy is Poland's unpayable convertible currency debt of about $40bn (£24.9bn), more than half of gross national product. The cessation of borrowing led to an economic collapse between 1979 and 1982, which was the economic fuse for the Solidarity explosion and subsequent introduction of martial law in 1981.

Martial law stabilised the economy only briefly. Soon wages were allowed to soar once more. The broad money supply doubled between 1982 and 1986; rose by 33 per cent in 1987 and then by 63 per cent in 1988. The latter increase accommodated an 84 per cent increase in wages, well ahead of open inflation of 60 per cent. Inflation led to a decline in the desired holdings of money and – given the shortage of assets (apart from the dollar) – a flight into goods. With real wages rising as well, queues grew longer and the people more restive.

Then, during 1989, the Rakowski Government embarked on the political equivalent of "going for broke." Official data indicate a rise in nominal wages of more than 210 per cent in the first seven months of 1989 compared with the same period of last year, 2½ times faster than recorded inflation. Convertible currency imports are expected to rise by almost a quarter over the level of 1988. Meanwhile, the general government budget has moved from a rough balance in 1988 (according to the official figures) to an expected deficit of 6,000bn zloty for 1989, virtually all monetised. Until the summer, the growing inflationary pressure was largely repressed. But in August the flood gates opened, with a six-fold increase in food prices and inflation jumping to 39 per cent for the month.

The Solidarity Government no longer has to agonise over how to deal with the monetary overhang. The choice has been made – and it is for open inflation. Since the Soviet reform seems to be bogged down, if not sunk altogether, by the inability of President Gorbachev's team to decide on this point, the Polish Government has some reason to feel gratitude for the suicidal policies of its immediate predecessor.

Swift action is now essential. Without a halt to hyper-inflation the budget deficit cannot be eliminated – because of the effects of inflation on the real value of even a few months lag in revenues – and the monetary expansion can also not be stopped. Swift action is politically necessary as well. The Government will never find it easier to impose corrective austerity tban now, when it can blame everything on its predecessor. It also needs swift success, as proof that things can be changed in Poland, after years of half-hearted reform.

The programma will apparently have the following main elements, all intended to come into effect at the beginning of next year:

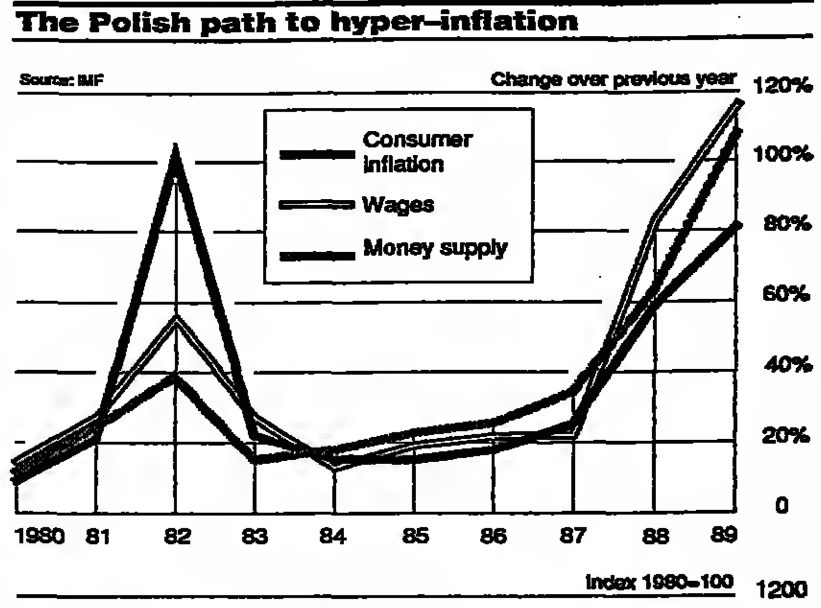
- The budget will be balanced and government borrowing from the banks will cease.
- To achieve a balanced budget, subsidies will be eliminated. The price of coal, Poland's dominant energy source, is to rise fivefold. The removal of subsidies and price controls on other goods will double consumer prices in the first quarter of the year.
- Monthly rates of interest are to be raised to 30 per cent, with the aim of offering positive real rates of interest.
- The official rate for the Polish zloty is to be devalued by two thirds and brought closely into line with the free market exchange rate, as foreign trade controls are dismantled and limited convertibility introduced. The new rate is to be "managed", not fixed, though the Government hopes to hold it for six months.
- There will be prohibitive taxation of excessive wage increases. Wages in January will be kept from rising above the September level by more than 80 per cent of price inflation between September and December (which implies a modest increase in January itself). The Government is hoping to keep monthly wage increases between February and early summer below a fifth of the rate of inflation in each of the preceding months.

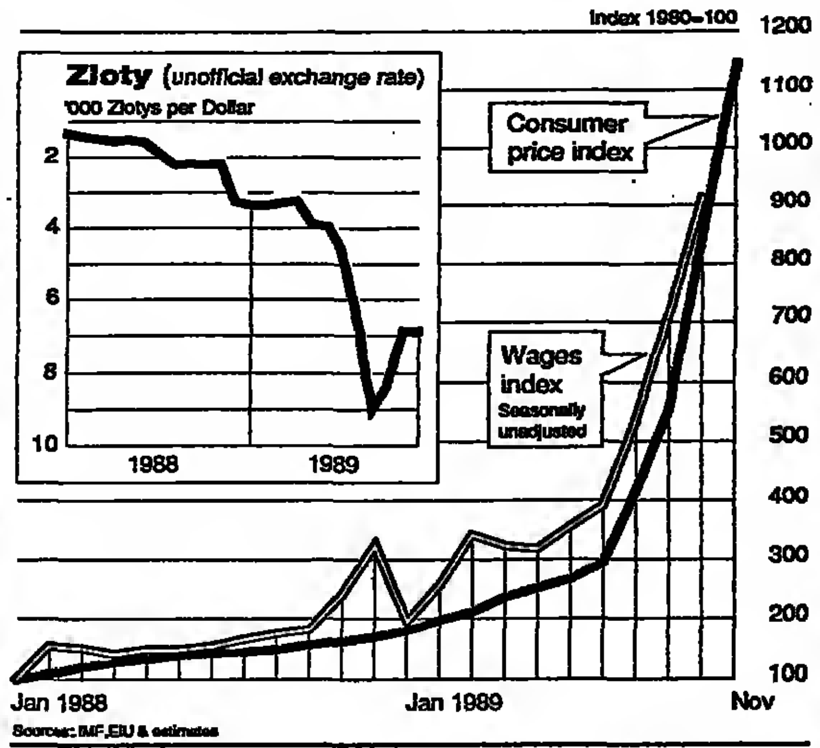
What would be the consequences of this programme? Much of the present inflation is corrective. That correction will continue early in the New Year, when monthly inflation is expected to peak at 50 per cent, before declining to below 5 per cent by April. The current expectation is that price inflation will be about 140 per cent from December 1989 to December 1990, with almost all the increase occurring early in the year. The Government assumes that there will be a 25 per cent drop in real incomes next year, that open unemployment will rise to 400,000 and that industrial output will fall by at least 5 per cent.

Does the programme have a chance of working and will western support be either adequate or sufficiently prompt for that purpose?

The closure of the budget deficit and the alimination of government borrowing from the banking system are necessary conditions for success. Elimination of the overvaluation of the official exchange rate is an equally essential element of the reform programme as a whole.

The Polish path to hyper-inflation





Sources: IMF, EIU & estimates

In the case of Poland, the arguments for a strict incomes policy during the disinflationary stage are strong. Polish enterprises are neither profit maximising nor competitive. Their managers have no incentive to hold the line on wages, at least before bankruptcy, but that is a threat of little potency in light of their past experience. Furthermore, the corrective price rises are intended to lower real wages. If wages follow higher prices, Poland would experience either a spiralling hyper-inflation or a huge increase in unemployment.

It should also not be forgotten that the reduction in real wages is more apparent than actual. Goods were either unavailable at the supposed prices, at least without queuing (itself part of the price), or paid for indirectly by the arbitrary exactions of the inflation tax.

The case for a fixed exchange rate is at least as strong. The dollar is the king of Poland. A network of official dollar shops sells western goods at prices westerners would envy. Holdings in official dollar accounts amount to around $6bn, while some informed observers believe that total dollar holdings are far larger. In such an economy depreciation increases the effective money supply, pro rata. Furthermore, people will be enticed back to the zloty only if persuaded that it is as good as the dollar.

In the event, the Government appears to have decided in favour of a strongly damped wage inflation, rather than a wage freeze, and against a fixed exchange rate. In both respects, but especially on the exchange rate, the Government appears to have gone against the original advice of the IMF. Both decisions are understandable, but to embark on speedy disinflation with neither a fixed nominal wage nor a fixed exchange rate may leave the pilot with one anchor too few.

Pain without success would be the worst possible outcome, for Poland and for the West as well

In making this decision, the Government will have been influenced by the rather modest funds available to it as short-term backing for the stabilisation programme. It is hoping to raise $725m in standby credits from the IMF next January. In the meantime a bridging loan of $500m is apparently to be made available from the central banks of the developed countries, while a number of western governments have announced contributions to a $1bn stabilisation fund. In addition, the European Community pledged Ecu 300m (£260m) in food aid this year and Ecu 200m for next year.

Will this prove sufficient? The amount of aid must be enough to persuade the Government to risk boldness, while not so much that it feels able to avoid that risk. The Polish programme is bold. If implemented in full, it should – with luck – prove bold enough. The question is whether the aid will be sufficient to overcome the political obstacles to implementation. Pain, without success, would be the worst possible outcome for Poland – and for the West as well. If the West must stand by Poland this time, Mr Mazowiecki faces a far greater challenge: to avoid being Poland's Alfonsín.

OBSERVER

Alexander's next move

■ Now that Eddie George has the deputy governorship of the Bank of England, speculation turns to who will be the next Governor.

The present one, Robin Leigh-Pemberton, is doing a second term which expires in mid-1993 and which he is determined to see out: no question of early retirement. So the decision is some way off. Moreover, there will be a general election by mid-1992 at the latest, and that could confuse the outlook still further.

Still, nothing stops the City from speculating. Assuming that there are no political upsets, the obvious contenders are headed by Eddie George himself. But the history of deputies moving up to the full governorship is scanty. Only the now Lord O'Brien of Lothbury has managed it in recent times, and the previous deputy, Sir Kit McMahon, failed to get it, prompting his departure to the Midland Bank.

George could, of course, grow in stature in the job as his immediate predecessor, Sir George Blunden, has done. But at the moment his specialisation in monetary matters, though impressive, is a handicap because it seems to narrow his range.

Other candidates exposed to conventional speculation are Sir David Scholey, chairman of Warburgs, and David Walker, chairman of the Securities and Investments Board, both of whom still look clearly in the running. Scholey's name has been around for a long while and he is only 54. Walker might not have gone to the SIB, if it ruled out a future at the Bank.

But if you had to place an outside bet and one that might stand tha test of time, there is some talk of Lord Alexander of Weedon, the new chairman of the NatWest Bank, a post which he took with some Bank of England prompting.

Three years from now, Alexander will have a lot of financial experience under his belt, in addition to his qualifications from the Bar and the Takeover Panel. He also emanates that aura of soundness that is looked for in a Governor. He is a Conservative, but that would not necessarily stop a Prime Minister Kinnock appointing him.

As a very, very outside bet, under a Labour Government, try Lord Donoughne, the former policy adviser to Prime Minister Callaghan.

Poor Plymouth

■ Newcastle on a Saturday afternoon: cold, wet and windy. Do not believe that a great deal of progress has been made with the inner cities. And if you want to see a real jungle of a traffic system, try the road networks on both banks of the Tyne.

At the central station there was a notice saying thet the local football match had been cancelled because St James's Park was waterlogged. The visitors were Plymouth Argyle, not a club, I imagine, with a great deal of money to spare. There was something curiously old-fashioned British in their having made the longest journey in the second division, possibly in English league football – from Plymouth to Newcastle – only for the match to be off. In Plymouth, I gather, the weather was even worse.

Salary stakes

■ The mortgage market may be sunk in gloom until such time as the Chancellor decides to pull down interest rates, but the mortgage companies now seem to be pulling ahead of City merchant banks in the salary stakes.

At National Home Loans, the first and largest of the "new wave" mortgage lenders, Richard Lacy received £425,000 last year, according to the group's annual report published last week. That puts him well ahead of the £398,000 paid to George Mallinckrodt, chairman of Schroders, or Sir John Baring (of That Ilk), and a hair's breadth beyond John Craven at Morgan Grenfell who was paid £422,973.

"We're only giving citizenship to those who can afford personalised car number plates."

"I assume that I am being paid more than some merchant bankers," says Lacy. "But some are also getting more than I do." He says that salaries at National Home Loans are assessed by a remunerations committee, which takes into account such matters as a deferred bonus for the previous year's performance and success in setting up new businesses, as well as making an above-expectations profit of £33m and boosting the group's earnings per share by 16 per cent.

Nevertheless, a pay increase of around 63 per cent must seem generous to Lacy's former colleagues in the plodding world of the building societies, which he left in the mid-1980s to build his own new-style housing finance empire.

The chief executive of Alliance & Leicester, successor to the Leicester Building Society where Lacy cut his teeth, earned a mere £105,000 last year. Even among tha clearing banks, the best paid directors of Barclays and National Westminster earned only £315,000 and £235,000 respectively.

Great cranes

■ Possibly because of a competition organised by the Financial Times, there has been a wonderful display of illuminations around the City part of the Thames in the last few weeks. The competition is for the best-dressed crane and the construction companies have risen to it splendidly.

Some nights, however, some of the lights are out. This is not because the companies are saving money on electricity. There has been a warning from the Health & Safety Executive that while "the illumination and the decoration of cranes brings a splash of festive colour to city skylines . . . this must not be done in any way that could increase wind loadings on cranes and endanger their stability."

Since tha cranes survived the storms on Saturday night, they can almost certainly survive the competition. The results will be announced later this week.

Sound advice

■ From the staff magazine of a Bristol company: "I often wish I could go back in time and meet great men whose work I admire, but I wonder if I would be able to rise to tha occasion. For example, my favourite composer is Franz Schubert, but what would I say to him?" How about: "Take me to your Lieder."

Milton Friedman argues that pegged exchange rates inevitably turn minor problems into major crises

The case for floating rates

Discussions of the prospects for a monetary union within the Common Market have generally scanted the difference between two superficially similar but basically very different exchange rate arrangements.

One arrangement is a unified currency: the pound sterling in Scotland, England, and Wales, and at an earlier date, in Ireland as well; the dollar in the 50 states of the United States and in Panama.

A slightly more complex example is the Hong Kong dollar much earlier when it was unified with the pound sterling by means of a currency board that was ready to convert the one into the other at a fixed rate, keeping in reserve an amount of sterling equal to the sterling value of the outstanding Hong Kong dollars. That is again the situation since the currency reform of 1983, when the Hong Kong dollar was linked through a similar mechanism with the US dollar.

Further back in time, that was also the situation under the late 19th century gold standard, when pound, dollar, franc, Mark, were simply different names for specified fixed amounts of gold.

Pressure to use monetary policy for domestic purposes will from time to time be irresistible

The key feature of a unified currency area is that there is at most one central bank with the power to create money — "at most" because no central bank is needed with a pure commodity currency. The US Federal Reserve System has 12 regional banks, but there is only one central authority (the Open Market Investment Committee) that can create money. Scotland and Wales do not have central banks. When Hong Kong unified its currency with the dollar, it left open the possibility of giving the currency board central bank powers, and, before the Tiananmen Square episode in China, the Hong Kong authorities were contemplating introducing changes that would in effect have converted the currency board into a central bank. One of the few good effects from what happened to China has been to derail that project.

With a unified currency, the maintenance of fixed rates of exchange between different parts of a currency area is strictly automatic. No monetary or other authority need intervene. One pound in Scotland is one pound in Britain, plus or minus perhaps the costs of shipping currency or arranging book transfers — just as under a late 19th century gold standard the rate of exchange between the dollar and the pound varied from $4.8665 only by the costs of shipping gold (yielding the so-called "gold points"). Similarly, 7.8 Hong Kong dollars is essentially simply another name for one US dollar, plus or minus a trivial amount for transactions costs. It requires no financial operations by the Hong Kong currency board to keep it there other than to live up to its obligation to give 7.8 Hong Kong dollars for one US dollar and conversely. And it can always do so because it holds a volume of US dollar assets equal to the dollar value of the Hong Kong currency outstanding.

An alternative arrangement is a system of exchange rates between national currencies pegged at agreed values, to be maintained by the separate national central banks by altering ("co-ordinating" is the favourite term) domestic monetary policy appropriately.

Many proponents of a common European currency regard such a system of pegged exchange rates (the EMS) as a step toward a unified currency. I believe that is a grave mistake. In my opinion, a system of pegged exchange rates among national currencies is worse than either extreme: a truly unified currency, or national currencies linked by freely floating exchange rates. The reason is that national central banks will not, under modern conditions, be permitted to shape their policies with an eye solely to keeping the exchange rates of their currencies at the agreed level. Pressure to use monetary policy for domestic purposes will from time to time be irresistible. And when that occurs, the exchange system becomes unstable.

The pegged exchange rates can be maintained for a time by governmentally arranged capital flows, by foreign exchange controls, or by restrictions on international trade, but by now there is ample evidence that these are only temporary expedients and generally lead to the conversion of minor problems into major crises.

That was certainly the experience under Bretton Woods. Even in its heyday, exchange rate changes were numerous and, when they came, often massive. The system lasted only so long as the US, first, followed a moderately non-inflationary policy and, second, was willing to be passive with respect to capital movements as well as exchange controls imposed by other countries.

That has been equally true of the repeated monetary arrangements in the Common Market: the European Payments Union, the snake, the current EMS. None has been able to avoid exchange crises and exchange rate changes and several have simply broken down. The current EMS has been working reasonably well because Germany has been willing to play the role that the US played under Bretton Woods: pursue a moderately non-inflationary policy, and tolerate capital movements and foreign exchange controls imposed by other member countries.

Many observers give the EMS credit for enabling its members, notably France, to reduce inflation in recent years. No doubt the French anti-inflationary policy did gain greater credibility from its membership in the EMS, that is from its tie to the relatively stable German Mark. However, the decline in inflation was a worldwide phenomenon, by no means limited to members of the EMS.

In my view, the explanation is linked to the end of Bretton Woods. That led to the adoption of a world monetary system that has no historical precedent. For the first time, so far as I know, in the history of the world, all major currencies are pure fiat currencies, not as a temporary response to a crisis, as had often occurred in the past in individual countries, but as a permanent system expected to last. The countries of the world have been sailing uncharted seas. It is understandable that in the first decade of that voyage all sorts of things might happen and, in particular, a worldwide outburst of inflation did occur. That worldwide outburst of inflation discredited the simple-minded idea of any long-term trade-off between inflation and unemployment, reduced the fiscal benefits from inflation, and increased the public's aversion to inflation. It became politically profitable for countries to follow policies consistent with a sharp reduction in inflation. That occurred in the EMS, but it also occurred in Japan, in Britain, in the US and throughout much of the world other than the basket-case countries.

Two recent episodes illustrate by contrast the difficulty of relying on pegging one currency to another as a way to achieve disinflation.

The first is Chile, which pegged its currency to the US dollar in the late 1970s to promote the disinflation in progress. Unfortunately for Chile, the US dollar shortly embarked on a sharp appreciation against all world currencies. The result was disaster: serious economic decline, indeed depression, the complete loss of credibility of government monetary policy, and the removal from office of those who had engineered the peg.

In 1985, I believe it was, Israel adopted identically the same policy for the same reason and pegged her currency to the US dollar. The result was a great success because the dollar was poised for a sharp devaluation. The identical policy was utter disaster and shortsightedness in the one case; far-seeing wisdom in the other.

Recent British experience offers another cautionary tale about the risks involved in pegging one currency to another.

A truly unified European currency would make a great deal of sense. But to achieve it requires eliminating all central banks in Europe, if the unified currency is a pure commodity currency, or all except one, if the unified currency is a fiat, or partly fiat, currency.

If that one were to be a current central bank, the obvious choice would be the Bundesbank, which has been the dominant bank in the EMS. That would require eliminating the Bank of England, the Bank of France, the Bank of Italy, and so on, or converting them into administrative branches of the Bundesbank. A possible alternative is the Bank for International Settlements, which would require eliminating the Bundesbank as well. It is hard to regard any of these possibilities as a serious option — except perhaps if there were a monetary crisis of a severity that fortunately seems highly unlikely.

A truly unified European currency requires eliminating all central banks in Europe

The hope that a system of national central banks linked by pegged and managed exchange rates can prove a way-station to a truly unified currency seems to me an utter mirage. It will be no easier to abolish the central banks when such a system is in operation than before it starts. Similarly, the prospect of a consortium of central banks operating as a unit, mimicking a single central bank, strikes me as equally far-fetched.

Nearly four decades ago, I spent some months as a consultant to the US Marshall Plan agency, analysing the plan for the Schuman Coal and Steel Community, the precursor to the Common Market. I concluded then that true economic unification in Europe, defined as a single relatively free market, was possible only in conjunction with a system of freely floating exchange rates (I ruled out a unified currency on political grounds, if my memory serves me right).

Experience since then has strengthened my confidence in that conclusion, though it has also made me far more sceptical that a system of freely floating exchange rates is politically feasible. Central banks will meddle, always of course with the best of intentions. None the less, even dirty floating exchange rates seem to me preferable to pegged rates, though not necessarily to a unified currency.

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LOMBARD

The magic of unfree markets

By John Plender

WHEN THE PUNDITS come to pass their verdict on the prospects for the 1990s, they will draw justifiable comfort from the fact that the world economy is much healthier than it was at the start of the decade. Much less reassuring is that policy-makers are setting out for the year 2000 with e hundle of options and nostrums that look little different from the intellectual heggage with which they confronted the 1980s.

The sheer scale of the policy failure in eastern Europe is such that it makes western mistakes look paltry hy comparisoo. Yet by any less dismal yardstick the economic policy failures in the West have been substantial. Take, for example, the consequences of liberalisation — that most fashionable of 1980s nostrums — in currency and financial markets.

The eppeal here eppears to be largely confined to Anglo-Saxon countries. But this has not deterred the Anglo-Saxons from ill-considered ettempts to impose deregulation on their trading partners. First there was Donald Regan in the early 1980s, urging the Japanese when he was at the US Treasury to liberate capital flows on the assumption that it would somehow help reduce the US trade deficit with Jepan. When Japanese savers were offered en overseas alternetive to low domestic returns the resulting capital outflow exacerbated an existing currency misalignment and caused the US trade deficit to soar.

Now we have Mrs Thatcher urging liberalisation on the continental Europeans as a condition of British entry into the exchange rate mechanism. Since Britain's over-sized financial sector derives much of its competitive edvantage from being less heavily regulated than its continental equivalents, this is e recipe for undermining the fastest growing sector of the British economy in the present decade.

And what are we to make of the American ettempt to loosen up Japanese financial markets through the so-called Structural Impediments Initiative? The proverbial alien from Mars would surely feel that the move is inspired by a remarkably insular vision. After all, the larger Anglo-Saxon economies are scarcely attractive models. They all heve trade deficits, which is partly a consequence of liberalisation; their financial markets are thoroughly unstable; their corporate sectors are constantly subjected to external shocks and disruptive takeovers; and their individualistic commitment to free markets often stands in the way of social cohesion.

The Japanese, in contrast, rig their markets very thoronghly. Like the Germans, they confine competition to those sectors of the economy where they believe it to be beneficial and theo ensure that it is truly ferocious. The noncompetitive elements of the system are designed to provide a stable climate in which Japanese husiness invests ever more productively in plant and machinery.

And it works. One of the least applauded western policy successes of the 1980s was the readiness of the Japanese to exteod the benefits of this system to the international community. Their response to all the financial turbulence that has accompanied the decline of dollar hegemooy has been to provide an important public good, stability, to the US financial markets. In the dollar crises and stock market crashes of the late 1980s the influence of the Japanese Ministry of Finance over a cartelised insurance, banking and securities market was used to correct policy failures in the US. Credit controls mitigated the inflationary consequences of holding down Japanese interest rates to support the dollar.

Undermine the cartels and throw away the credit controls and you hring back unmitigated Anglo-Saxon policy chaos. The eastern Europeans who are now treading the corridors of the Japanese ministry in droves have recognised as much. They know that the Marxist-Leninist version of state communism has failed; but unlike free-market western politicians, they also see that the corporate communism of modern Japan has heen the real miracle of the 1980s. When will the Anglo-Saxons twig?

LETTERS

Working practices and wage inflation

From Mr Sushil Wadhwani.

Sir, Michael Prowse (December 4) notes that the shift in the balance of industrial power in the 1980s has led to important changes in working practices, but has had little effect on wage inflation. This situation has long puzzled me. It would be nice if your readers could shed some light on it.

The facts suggest that there has been greater organisational change in unionised establishments in the 1980s, but next to no change in the union/non-union wage differential. This is surprising; for, if unions are weakened, you would expect that they would prefer to give way a little on both work practices and wages, instead of conceding e lot on work practices, and nothing on wages. (Survey evidence shows that in some cases a *rise* in wages has heen a necessary feature of deals to do away with restrictive working practices.) We need to explain this behaviour if we are to fully understand wage inflation.

Mr Prowse attribntes the high wage inflation of the 1980s to the fact that much wage bargaining is decentralised. It may be that increasing decentralisation during the decade contributed to wage inflation. None the less, the low inflation and low unemployment records of some countries with decentralised wage bargaining systems — for example the US, Switzerland and, possibly, Japan — should make us wary of simple generalisations.

I have discussed the union/non-union wage differential conundrum with several colleagues. Tentative explanations have been advanced, none of them wholly satisfactory. Perhaps your readers — especially those with actual experience — can do better.

Sushil Wadhwani,
Centre for Labour Economics,
London School of Economics,
Houghton Street, WC2

Incompatible methods of acquisition accounting

From Mr Martin Walker.

Sir, Graham Stacy and David Tweedie argue in your pages (December 7) that acquired goodwill should remain as a permanent asset in the balance sheet until its value is seen to have permanently diminished.

This approach will hardly ever be logically compatible with the conventional method of acquisition accounting and the conventional accruals-based interpretation of earnings as defined in Statements of Standard Accounting Practica 23 and 2 respectively. Under the conventional method of acquisition accounting, the purchase of a subsidiary is treated just like the purchase of any other asset; that is, the price of the acquisition is matched against the financial benefits generated by the acquisition.

Under the assumption that the incremental net cash flows generated by the acquisition are both permanent and reasonably constant, the Stacy and Tweedie treatment of acquired goodwill yields the "correct" measure of earnings, provided one also adopts the convention that the initial outlay on acquiring goodwill is to be amortised against the undiscounted future benefits generated by the acquisition.

However, the assumption that the stream of benefits will be permanent will typically be very unrealistic and the convention of matching outlays against undiscounted future benefits has little theoretical support. The only firms likely to benefit from the Stacy and Tweedie approach are the large acquisitive companies which figure among tha clients of large auditing firms.

If one modifies the Stacy and Tweedie approach by matching according to discounted future benefits one finds that about four fifths of the goodwill would be written off by the end of 10 years using a cost of capital of about 20 per cent.

Martin Walker,
Centre for Empirical Research in Accounting and Finance,
Department of Accounting and Finance,
University of Manchester,
Manchester

The Fimbra story

From Mr Christopher Price.

Sir, Your leader (December 12) noted the early retirement of Fimbra Chairman, Lord Elton. You found it "disturbing that a body which has been set up to promote the protection of investors should have been put under such pressure by vested interests within the industry." You then use the episode as an excuse for calling into question the whole process of self-regulation as established under the Financial Services Act 1986.

You cannot and must not deduce that member dissatisfaction with Fimbra equates with a reduction in consumer protection. The FSA does remain controversial, but current frustrations within Fimbra stem from protection which is misplaced, rather than excessive.

A cumbersome weapon designed largely by amateurs and fired by an army of lawyers and bureaucrats has failed to give most consumers protection in areas in which they are most vulnerahle. Mortgage related "rip offs" continue with little or no restriction. So do the activities of high-pressure salesmen who work mostly for direct selling, unit-linked insurance companies.

Meanwhile the main impact has been upon independent financial advisers who have to contend with a rule book of such size and complexity that technical breaches are almost impossible to avoid. Far too much of it has little to do with consumer protection. In some areas, the attention to irrelevant details would be farcical, if it were not backed by a small army of compliance officers obsessed with such vital matters as the size of the Fimbra logo on a member's business card.

Herein lies the source of frustration which has exploded beneath Lord Elton. The recent administrative/menagsrial fiasco involving PI insurance was nothing more than the issue which united enough Fimbra members to construct a detonator. I know of no one who wishes to see a reduction in the level of consumer protection and it is wrong for you or anyone else to argue that Lord Elton's imminent departure provides an excuse for even contemplating more regulations.

Christopher Price,
Price Gardner & Co. Ltd,
16/17a Old Bond Street,
Bath

Europeans are not all Thatcherites now

From Mr Peter Wood.

Sir, Michael Prowse's common sense (December 15) in pointing out that liberated eastern and central Europeans are not necessarily endorsing capitalist values is more than welcome.

In recent years I have been a frequent visitor to East Germany and have conversed with individuals at all levels everywhere in the country. They invariably say: "our preoccupations here are entirely different [from those of the West Germans]."

Not for nothing have the more perceptive writers on East German issues underlined the significance of the East German's sobriquet of *die bessere Deutschen* — because of their lack of bombast and inability to worship material success and their corresponding intentness on family unity, education and more inward values. Sectors of tha West German university establishment (especially the medical faculties) concede that education in East Germany, based on chalk-and-talk, is frequently much better than it is in West Germany.

None the less, I believe Mr Prowse understates the difficulties of achieving any kind of permanent and effective transition from state planning in central Europe. Evidence from the Soviet Union suggests that Mr Gorbachev's rapid and sometimes conflicting reforms (in the energy sector, for example) have created virtual chaos. There, inefficient hut well-understood procedures are being replaced by systems that neither ministries nor enterprises can operate.

Peter Wood,
Newbold Farm,
Duntisbourne Abbots,
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FINANCIAL TIMES
Monday December 18 1989

Thousands pay tribute to Sakharov

By Quentin Peel in Moscow

TENS of thousands of Soviet citizens were queueing to a bitter snowstorm in Moscow last night to pay their last respects to Dr Andrei Sakharov, father of the Soviet human rights movement, as his body lay to state in the House of Youth.

In an extraordinary outpouring of emotion and political protest, queues five ebreast stretching for e mile or more forced the Soviet euthorities to abandon all hope of keeping the tribute to just four hours yesterday afternoon.

The mourners represented the whole spectrum of unofficial (and official) Soviet society, united in a demonstration which could yet mark the beginning of mass popular protest in the country.

The Soviet euthorities have been making urgent plans for adequate policing of Dr Sakharov's funeral today, to be held in the huge Luzhniki sports stadium but which may be unable to hold crowds popularly forecast et anything from 100,000 to more than 1m.

There was e possibility last night that they might be forced to postpone the event, to allow the huge crowds to file past the body of the man who is credited first as father of the Soviet atom bomb and later as father of the dissident movement.

The spontaneous demonstration, held in total calm and dignity, brought thousands of people not only from all parts of the capital, but from across the Soviet Union, to pay their respects. Many had some personal contact with the Soviet academician who fought the euthorities to many cases of political persecution and bureaucratic high-handedness.

Others came simply to express solidarity with a man who, even when physically exhausted by harassment and six years of exile in the town of Gorky, returned to Moscow three years ago to lead the most radical liberal reformers demanding faster perestroika.

"When I heard the news of Sakharov's death, I felt as if my own defender had died," Dr Natalya Yarosheva, a Moscow doctor, said. "As long as he lived, I was confident he would speak out on behalf of myself and every common person."

Officialdom was represented by Academician Yevgeny Primakov, e candidate member of the Politburo and chairman of the funeral commission, who was one of the first to stand as a guard of honour beside Sakharov's body.

He was followed by other leading members of the Congress of People's Deputies, such as Mr Boris Yeltsin, Academician Yevgeny Velikhov, and Academician Roald Sagdeev.

Mrs Yelena Bonner, the scientist's widow and fellow human rights campaigner – sat beside his body to receive condolences.

The official obituary in Pravda, the Communist Party paper, paid tribute to his "deep humanitarian convictions," but glossed over his passionate human rights campaign, for which he was labelled e traitor and e slanderer during the rule of Mr Leonid Brezhnev.

Muscovites place flowers under a portrait of the late Dr Andrei Sakharov, the human rights campaigner, on Pushkin Square, often the scene of dissident demonstrations

Janet Bush on Wall Street

Securities industry in doldrums

ON OCTOBER 13, Mr Craig Drill who runs a hedge fund in New York, was in Burlington, Vermont and had lunch with Mr George Ewins, a veteran salesman for Merrill Lynch.

Returning to Merrill's offices at around 2 o'clock, Mr Ewins revealed that Burlington was about to get its own home-grown hedge fund.

A local minister, he said, had proved himself to be a very successful small growth investor. The portfolio he ran for the church was up by more than 40 per cent so far. Mr Drill replied, only half-joking: "If a minister is leaving the church to set up a hedge fund, we are definitely at the peak of the market."

He looked at his watch – it was 2.10 on a sunny autumn day in Vermont. Over the next hour, the Dow Jones Industrial Average dropped 190 points, its second worst day in history.

The moral of the tale may, however, not be the temptation of a man of the cloth. The enterprising minister in Burlington, like so many millions of savvy small investors around America, will probably live to invest another day.

Events like the mini-crash of October 13 are much more keenly felt in the skyscrapered wasteland of Lower Manhattan's financial district.

As of December 13, the Standard & Poor's 500 index was up around 26.6 per cent for the year, the best performance since 1975 when it gained 31 per cent and this was with the benefit of coming out of a bear market.

Despite these returns – remarkable in the context of a slowing economy and the widespread view that corporate profits have peaked – Wall Street ends 1989 in a sorry state. Here are a few leading indicators of its fragile health. Two seats on the New York Stock Exchange were sold on October 11 – before the mini-crash – for $425,000 and $420,000, the lowest prices for four years.

It is not just the securities industry which is in the doldrums. On the New York Mercantile Exchange, which has among other things a popular crude oil futures contract, seat prices have lost 40 per cent of their value since May.

Traders attribute this not only to sagging volume but also to the Government's investigation into trading practices on futures exchanges in New York and Chicago.

Profits generated by the Government securities operations of the 44 designated primary dealers in the first eight months of this year were only one third of those made in the same 1988 period.

Drexel Burnham Lambert, which will by its own admission probably only break even this year, directed its top producers to accept partial payment in its own junk bonds and suffered the humiliation of seeing Standard & Poor's cut its rating on Drexel's commercial paper to A-3 from A-2.

The two major US rating agencies – Standard & Poor's and Moody's – have not seemed so threatening for a decade.

Moody's told Shearson Lehman Hutton a few weeks ago that its commercial paper had been put under review for a possible downgrade because of concerns about the company's capital. This warning led to last week's announcement by Shearson and its parent company American Express of a capital infusion of around $870m. There is also talk of an agreement with Moody's about an aggressive cost cutting plan.

Moody's downgraded First Boston's long-term credit rating in November because of its "appetite for making subordinated loans to leveraged buyouts" and its exposure to two particular junk bond deals: Mr Robert Campeau's purchase of Federated and Allied Department Stores and the ill-fated offering for Ohio Mattress.

Mr Christopher Mahoney, vice president of financial institutions group of Moody's, said the rating agency believed Wall Street was in secular decline, primarily because of overcapacity and that it would continue the contraction which began after the 1987 crash.

Total compensation at the large Wall Street houses dropped to $11.3bn in 1988 from $12.3bn in 1987, both because of job losses and pay cuts, according to Moody's.

Things are bad enough now but they could get considerably worse for those Wall Street houses who have heavy exposure to LBOs. Many more defaults are expected.

There may be a lot of people next year who would gladly swap their highly paid Wall Street jobs for a hedge fund and a ministry in Burlington, Vermont.

E Berlin and Bonn in joint call for caution over unification

By Leslie Colitt in East Berlin

A JOINT call for caution over moves towards the reunification of East and West Germany came yesterday from the two countries' heads of state.

The call came after Mr Richard von Weizsäcker, the West German President, beld an impromptu round of talks with Mr Manfred Gerlach, the East German head of state, and Mr Hans Modrow, the Prime Minister, to the building in Potsdam where the two nations' post-war fate was decided.

Following the 30 minutes of talks, which were the latest in an accelerating series of bilateral meetings, both Mr von Weizsaecker and Mr Modrow emphasised that their respective allies in Nato and the Warsaw Pact must be able to rely on them.

The West German President said moves towards German unity must be in step witb those towards European unity. "It is in both our interests that our neighbours, snch as Poland, should not feel that the coming together of the two German states should give them cause for concern about their territory," he said.

Mr Von Weizsaecker, on a private visit to ettend a carol service, met the two East German leaders at Potsdam's St Nicholas Church and later left for talks at the Cecilienhof, scene of the Potsdam Conference between the US, Britain and the Soviet Union in 1945.

Earlier, Mr Gregor Gysi, East Germany's new Communist Party leader, warned those East and West Germans who are clamouring for immediate reunification that they were "playing with fire."

In his speech to an emergency Congress of the Communist Party in East Berlin, Mr Gysi said peace in Europe would be *threatened* hy *rapid* steps toward unity and that Germans would "again be to blame."

On security, Mr Gysi said the National Defence Council *should be abolished* and the Defence Ministry reorganised. Shortly after he finished speaking, tbe Government announced that it would be disbanding the feared security police service - the Office for National Security, or "Stasi" - and replacing it with a trimmed-down intelligence corps and anti-snhversion team. The official ADN news agency said the coalition government of the reformist Prime Minister Hans Modrow took the widely-anticipated decision last Thursday.

Mr Gysi also called for an end to military parades and the dropping of a uniform that resembled that worn by the Wehrmacht in the last war. "A simple and practical uniform should be introduced which does not arouse the wrong memories. And as for goose-steps, we should bid farewell to inglorious Prussian traditions," he said to loud applause.

He also struck out at the excessive competitiveness associated with East German sport. "We see competitive sport as important, but no longer the cultural echievement of our country, and recommend it should be promoted according to social means - but not elevated to e question of national prestige."

Brain drain deepens dilemma in Hong Kong

By John Elliott in Hong Kong and Ralph Atkins in London

THE DILEMMA facing the British Government over Hong Kong will be deepened today by a survey showing that less than one-third of the colony's professional staff intend to stay there after it reverts to Chinese sovereignty in 1997.

The survey may seriously understate the problem, because it was carried out before the Tiananamen Square crisis in June, since when the number of people trying to leave has risen sharply.

In the UK, Mr Francis Maude, the Foreign Office minister, yesterday gave e clear signal that the Government would press ahead with plans to give a limited number of *Hong Kong residents the right* of abode in the UK - despite strong opposition from within the Conservative Party.

The Government believes that giving senior administration and business figures access to the UK will help restore confidence in the colony - and need not necessarily lead to a large-scale inflow of Hong Kong Chinese into the UK. Conservative critics oppose any large-scale relaxation of immigration laws.

The Government is expected to announce in the House of Commons this week its plans for granting the right of abode. *Broad decisions* were taken before Conservative backbench opposition became most visible, but final decisions have still to be made.

Mr Maude said Britain was committed to delivering e "package of assurances" to Hong Kong. Speaking on BBC Television, he said: "The purpose of this is not to bring people here but to anchor them in Hong Kong." He hoped to convince *Tory rebels that changes* would not boost immigration into the UK hut deter it.

He repeated Britain's determination to repatriate Vietnamese boat people in Hong Kong - another policy intended to boost confidence in the colony. But, referring to last week's involuntary return of 51, he dismissed accusations of ill-trestment. "There is no force used, there is no force threatened," he said.

The Pope, who rarely criticises the actions of governments, yesterday described the decision to repatriate the Vietnamese as "grave" and said he was very concerned about the *fate of thousands of refugees* in the colony.

Proposals to give passports to Hong Kong residents would be aimed at persuading Hong Kong's most valuable professional people, civil servants and entrepreneurs to stay. Government officials yesterday said that even if legislation was required, it would be some time before it was brought before Parliament - it was too early to begin calculating the strength of opposition.

Any scheme is unlikely to have much effect on next year's brain drain from Hong Kong which the Government expects will rise to 55,000 people from this year's 45,000.

World Bank urges wider strategy for debt relief

By Stephen Fidler in London

THE World Bank today calls for a broadening of the international debt strategy to include debt concessions for highly indebted countries snch as Poland - which owe large sums to government creditors.

In its pnblication, World Debt Tables 1989-90, the Bank says:

"Some of the middle-income countries that have severe debt servicing difficulties and that are largely indebted to official creditors may also need concessional reschednlings. . . the official international community may need to consider the problems of these countries further."

This would include Poland, ebout three-quarters of whose debt is owed to official creditors, and Egypt, regarded as severely indebted.

Governments of industrialised countries have conceded concessional debt relief to the poorest African countries, but have resisted extending this to middle-income countries.

However there is a growing view that attempts by Poland to transform its economy would fail if the governments - which when grouped together are known as the Paris Club - insist on the country repaying its debts to them in full.

Tbe publication, whicb reflects the views of the Bank's economics department, suggests these countries are one of a number of groups which have fallen through the cracks of the new debt strategy.

This has so far concentrated on two sets of countries: debt-distressed middle-income countries whose debts are mainly owed to banks, and the poorest African countries, heavily in debt to Western governments.

The former group is the target of the Brady initiative, launched in March to offer official support. The latter is the subject of "Toronto terms," through which relief is granted by the Paris Club.

The pnblication says the results of the strategy named after Mr Nicholas Brady, the US Treesury Secretary, as encouraging but warn that it is too early to judge its success.

Brady initiative, Page 4

Questions raised over Porton deal

By Peter Marsh in London

MR KENNETH Clarke, Britain's Health Secretary, faces questions in the House of Commons this week over the terms of a deal between the Government and Porton International, a biotechnology company which has raised £76m ($120m) from City of London institutions but has fallen well behind on original profits forecasts.

In 1985, Porton secured an agreement with the Government related to the Centre for Applied Microbiology and Research (CAMR) under which it could commercialise inventions from the laboratory, part of the Health Department.

Part of the deal involved Porton paying an estimated £20m to construct a fermentation plant at CAMR but so far the unit has not been built.

Lord Glenarthur, a former parliamentary under-secretary at the Health Department, was one of the ministers involved with Mr Clarke in finalising the Porton deal.

He said the building of the fermentation unit was a fundamental part of the agreement and he was surprised it had not gone ahead.

Dr Jeremy Bray, the Labour Party spokesman on science and technology, said he had tabled House of Commons questions for Mr Clarke. He described the affair as "very odd."

Porton, whose chairman is Mr Wensley Haydon-Baillie, has been the subject of comment to the City of London, because in spite of significant backing from some of Britain's biggest financial institutions, its progress has been less than expected.

Peter Pan of pharmaceuticals, Page 8

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	17	63	Dubrovnik	F	17	63	Malta	S	21	70	Rhodes	F	17	63
Algiers	F	30	86	Edinburgh	R	9	48	Manchester	C	11	52	Rio de J'o	F	37	99
Amsterdam	C	12	54	Faro	F	19	66	Manila	F	31	88	Rome	F	16	61
Athens	Fg	16	61	Florence	F	16	61	Melbourne	S	22	72	Salzburg	C	4	39
Bahrain	S	18	64	Frankfurt	F	13	55	Mexico City	C	22	73	San Francisco	S	4	39
Bangkok	F	30	86	Funchal	S	18	64	Miami	C	16	61	Seoul	S	9	48
Barcelona	S	18	64	Geneva	C	13	55	Milan	C	12	54	Singapore	F	31	88
Beirut				Gibraltar	R	17	63	Montreal	Sn	-17	1	Stockholm	Sn	-3	26
Belfast	C	7	45	Glasgow	R	8	46	Moscow	C	-13	9	Strasbourg	C	13	55
Belgrade	C	20	68	Guernsey	R	11	52	Munich	C	9	48	Sydney	S	22	72
Berlin	F	12	54	Helsinki	C	-7	19	Nairobi	F	25	77	Taipei	C	17	63
Biarritz	S	18	64	H. Kong	S	20	68	Naples	S	21	70	Tangier	C	17	63
Bombay	S	29	84	Innsbruck	C	4	39	Nassau	S	25	77	Tel Aviv	S	17	63
Bordeaux	F	17	63	Inverness	C	4	39	New Delhi	S	21	70	Tenerife	S	24	75
Brussels	C	13	55	I.o.Man	R	9	48	New York	C	8	46	Tokyo	S	7	45
Budapest	C	16	61	Istanbul	S	14	57	Nice	C	16	61	Toronto	S	-11	13
B. Aires	R	30	86	Jakarta	S	31	88	Nicosia	C	23	73	Tunis	R	24	75
Cairo	S	21	70	Jersey	F	12	54	Oporto	C	13	55	Valencia	F	21	70
Cape Town	S	34	93	Jo'burg	F	22	72	Oslo	Sn	-3	27	Venice	Fg	12	54
Caracas	F	25	77	Lima	F	24	75	Paris	C	14	57	Vienna	C	7	45
Casablanca	F	25	73	Lisbon	F	16	61	Peking	S	4	39	Warsaw	F	7	45
Chicago	Sn	-13	9	London	F	12	54	Prague	C	5	41	Washington	R	-8	18
Cologne	F	12	54	Los Angeles	S	15	59	Reykjavik	S	-5	23	Zurich	R	12	54
Copenhagen	S	6	43	Luxembourg	F	12	54								
Corfu	S	18	64	Madrid	F	16	61								
Dublin	C	9	48	Majorca	F	17	63								
				Malaga	R	17	63								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

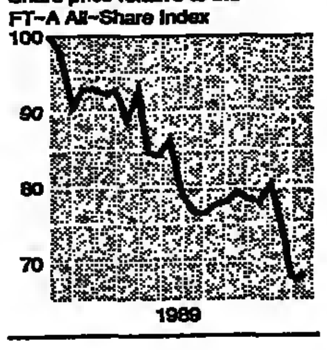
THE LEX COLUMN

British Land's choicest deal

You must go back to the fracas over the Burton share options to find the last time institutional investors volced as mnch discontent es some express now over Mr John Ritblat's unbundling of British Land. If his scheme is voted *down* on Thursday, *the result* will not simply reflect the long list of what institutions such as PosTel see as flaws in the plan. It may also be due to the take-it-or-leave-it attitude of British Land and its adviser S G Warburg. On Friday, they appeared to rule out even the possibility of postponing the egm.

The perceived flews start with the arguably excessive £15m annual fee payable to New British Land, the new property developer-trader formed to sell off the old British Land portfolio. They proceed via the fact that NBL is getting £339m of British Land's assets at what looks like a 12.5 per cent discount. The nub of the problem, however, is that so much of the shareholder value to be released from British Land's portfolio will end up capitalising what some see as a private venture for Mr Ritblat and associates. That is not how Warburg would put it. But the fact that Mr Ritblat's investment group will get 51 per cent control of New British Land for five years, plus their generous equity incentives, shows why some institutions interpret it that way.

There is still plenty of room for debate but the indications *so far are that Warburg has* misjudged shareholder sentiment. And if the deal is worth only 400p-425p per British Land share, against its 560p of net assets, as the market seems to think, it does not in any case echieve Mr Ritblat's prime objective of eradicating the traditional property sector discount.



Tootal
Share price relative to the FT-A All-Share Index

GM-Saab

Volvo shares jumped by 14 per cent last week on news that it had sorted out its disastrous diversification moves of the early 1980s. So the surprise *announcement that rival Saab-*Scania had rid itself of its major problem area by offloading a half share in its loss-making car business on General Motors is equally good news.

Admittedly, a share price which has risen by a third over the last six weeks has probably already discounted a lot, and some may quibble with the price GM is paying. Saab is bigger than Jaguar, yet it is being *sold* for less than half what Jaguar extracted from Ford. However, Jaguar was not losing SKr2bn e year, and is a far better brand name. It is very mnch at the luxury end of the car market, whereas Saab is stuck uncomfortably in the middle.

It will provide GM with extra capacity to assemble its own vehicles; but Sweden is hardly the most obvious site *if all GM* wants is extra European car production. And while every-*one accepts that it is cheaper* for a major to buy into the luxury car market than start from scratch, the combination of e 50:50 joint venture and the Saab name does not sound the most effective solution for a company that is in a hurry to get more heavily involved in the upper end of the industry. For a start, GM will have to stem Seeb's losses pretty smartly, or its own shareholders could start *getting* restive again.

On the other hand, the combination of loss elimination, e SKr6.8bn improvement in Saab-Scania's liquidity and e potential capital gain equal to more than half last year's group profits should be good news for Saab-Scania's share price, especially if it flushes out e predator.

Tootal

It is increasingly hard to understand Coats Viyella's delay in re-launching its bid for Tootal which was cleared by *the UK authorities almost* two months ago. There is no obvious reason why the relatively minor conditions which have to be met cannot be covered in a new conditional bid; and if Coats Viyella really is trying to use the delay to argue the price down, then it is playing e very dangerous game.

It is one thing for e hostile bidder to try and renegotiate the terms, but this was an agreed bid where managements of both sides made joint submissions to the MMC and seemed committed to playing e vital role in the future success of the combined group. The commercial logic of the deal is just as strong as before and while there may have been some deterioration in the textiles industry, there is no suggestion that Tootal's profits are about to collapse. Most brokers are going for modestly higher profits next year, which on the original offer would put Tootal on an exit p/e of less than 13 times.

Given the potential for cost savings of as much as *£25m in* the first year, the idea of delaying any deal in order to knock £50m off the purchase price seems remarkebly shortsighted and petty. It is hard to see institutions accepting a revised bid of 110p say – compared with the original 133p cash alternative – when the market has risen by 10 per cent since the initial rather mean bid. Similarly, any threat by *CV to sell its 30 per cent stake* to another predator would further damage its own credibility and further alienate Tootal's management. CV's shareholders, whose paper has underperformed the market by more than 60 per cent over the past couple of years, deserve an early explanation just as much as Tootal's.

Hotel prices

The North-East of England must not be as depressed as it sometimes sounds if the Gosforth Park Hotel on the outskirts of Newcastle is valued *more highly than the luxury St* Moritz Hotel overlooking New York's Central Park. Admittedly, the Newcastle hotel might not have gone for such a high price if it had been owned by Mr Alan Bond who is rather strapped for cash. Nevertheless, last week's transactions underscore the continued surprising buoyancy of UK hotel prices, in sharp contrast to general UK property prices.

Another sign of the strength of demand is that investors still seem prepared to pay a preminm, rather than a discount, for a portfolio of hotels. Mount Charlotte, for example, *recently paid nearly six times* annual turnover, 26 times pre-interest profits or £145,000 a room, for the Thistle chain. Presumably, this is because the brand name, reservation systems etc, are thought to be worth something.

However, if the deal had been done witb borrowed money, it would mean that all Thistle's rooms would have to be let every night of the year and customers would have to pay £60 e night just to cover the interest hill. It is the sort of crude equation which should make investors nervous.

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Travelling in a westerly direction

A capitalist problem has recently been stalking Hungary's Ibusz travel agency: competition. For years, the company enjoyed a monopoly over the tourism sector – until Cooptourist set up in rivalry about five years ago. Now it has found what may be termed an appropriate solution to its difficulties. It has been partially sold to an international consortium headed by Austria's second biggest bank in a deal that will involve it becoming one of the first east European companies to be listed on a western stock exchange. reports. Page 23

Tokyo sets new challenge

The London-based Euromarkets face a new challenge from Tokyo: Nippon Steel, Japan's largest steelmaker, is about to become the largest company to use the Tokyo market for an issue of yen-denominated warrants. It will give a powerful boost to what is currently a tiny competitor to the Eurowarrant market. Stephan Wagstyl reports. Page 21

Assessing options

UK Paper, which has agreed to a £283m takeover bid from Metsä-Serla, the Finnish forest products group, has held discussions with at least one other company interested in making an alternative offer. The possibility of a new offer this week has emerged after disquiet among City analysts about the terms of the bid for Britain's biggest fine paper manufacturer announced last month. Page 20

The decade of divestment

VOLVO

Volvo, the Swedish car manufacturer, last week appeared to become the latest large corporation to join the divestment trend which has characterised the 1980s: it announced a restructuring of its pharmaceuticals and food interests, allowing it to concentrate on its core business. Christopher Lorenz, in the Business Column, looks at the factors behind the trend. Page 40

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GM finds alternative route to upper reaches

Kevin Done on how the Saab deal gives the US group the entry to the luxury car market it has long wanted

As mouths dropped open in disbelief in Fiat's headquarters in Turin at the end of last week, General Motors entered stage right in Stockholm – to a gasp from the audience – to carry off Saab, the ailing Swedish car maker, from under the Italians' noses.

General Motors has recently learned the hard way thet in takeovers two of the essential ingredients are speed and secrecy.

Little more than a month ago, the US-based group had appeared as the giant with feet of clay, as it was spectacularly out-manoeuvred by Ford, its arch domestic rival, in the hectic pursuit of Jaguar. Now it has settled for the consolation prize of a 50 per cent stake – along with the chairman's casting vote – in Saab-Scania'e troubled car operations.

Both GM and Ford have long been convinced that that they sorely needed an extra marque in the European car market if they were to be able to make any significant progress in penetrating the upper echelons of the lucrative executive and luxury car segments.

However technologically advanced, there is a general perception that a Ford remains a Ford. The same can be said of the GM marques – Opel in continental European markets and Vauxhall in the UK.

Ford has found its hoped-for salvation in Jaguar – admittedly at the sky-high price of £1.6bn ($2.5bn) – while GM has decided that Saab can offer it an alternative route towards the same goal.

It is taking on a Ford cast-off. Earlier this autumn, Ford was pursuing both Jaguar and Saab in parallel assaults and was the front-runner in the talks with the Swedish car maker. It withdrew from the negotiations in late October, however, apparently stumbling over its insistence on majority control and on its inability to make financial sense of the necessary investment.

While Ford turned itself single-mindedly to the pursuit of Jaguar, tbs Saab baton was picked up by Fiat of Italy. Fiat has no lack of marques in its collection, having swallowed virtually every other Italian anto operation of any significance in recent years.

Pens were poised in Turin on Thursday to dot the i's and sign a deal, which would have given the Italian car maker majority control of the Saab car operations. Fiat had planned to merge Saab with its Lancia division. It would have moved some production to Scandinavia and located the headquarters of the newly-established Saab-Lancia in a neutral capital, most probably London.

Unbeknownst to Mr Cesare Romiti, managing director of Fiat Auto, however, Mr Georg Karnsund, Saab-Scania chief executive had been conducting parallel secret talks with GM since mid-November. Mr Karnsund led a small Saab-Scania exploratory team to GM Europe's Zurich headquarters, at GM's invitation, on November 21.

"The cbemistry worked very quickly," said one senior executive involved in the talks. Within days the two sides had elaborated a product development plan for the Saab marque for the 1990s, and on November 27 and 28 Mr Robert Eaton, president of GM Europe, took a GM team on a visit around Saab'e plants and technical centre.

In the Jaguar deal, GM had become bogged down with its lawyers and bureancrats, but in the negotiations with Saab speed and secrecy triumphed.

Saab-Scania's Georg Karnsund (left) and GM's Robert Eaton

With the Saab/GM deal the automotive landscape of Europe has again been changed decisively, as the pace of concentration in the industry accelerates and the small and weak players are swallowed np by the big battalions.

In addition to Saab, Jaguar has fallen to Ford this year. Fiat has effectively swallowed Maserati and Honda of Japan is about to finalise its deal to take a 20 per cent stake in Rover Group's vehicle operations. In recent years, Alfa Romeo has fallen to Fiat – stolen controversially from under the nose of Ford – Volkswagen hae taken over SEAT of Spain, while GM has taken over Lotus, Ford has taken over Aston Martin and Chrysler has acquired Lamborghini.

According to Mr Karnsund, "soaring costs for research and development and ever-increasing international competition make it difficult for small-volume makers to survive on their own in a longer perspective."

In tbe case of Saab's car operations, it had become very much a question of survival as it hunted for a partner. The financial performance of tbe car operations has deteriorated at an alarming rate from a profit (before appropriations and taxes) of SKr941m ($145.5m) in 1986 to profits of SKr720m in 1987, SKr11m in 1988 and a forecast loss of around SKr1.8bn this year.

Sales have fallen in the vital US market (37,764 cars of total sales of 116,250 last year), stocks had become dangerously bloated, outpnt bas been falling while Saab has actually been bringing new capacity on line – it opened a new plant in Malmö in the autumn – and its model range had appeared increasingly dated with little sign of a replacement for its aged 900 before well into the 1990s.

The company bad already embarked on an extensive rationalisation effort, including the sale of components operations, a reduction in output and cuts in the workforce, but this was not expected to show results before 1990-91. The workforce is being cut by 1,500 to 2,000 during 1989-90.

All Saab's car production capacity is located outside tbe European Community. Output is spread inefficiently across three assembly plants, two in Sweden and one in Finland, for an expected total output this year of only 110,000 cars.

Saab is hardly the ideal takeover candidate for another car maker in Europe. But with Saab Automobile – a 50-50 joint venture, but the chairman and the casting vote will be GM's – General Motors has gained its much eought-after executive car marque and it has gained extra assembly capacity at a time when most of its European plants are working at full stretch.

It plans to take Saab into the luxury car market with an additional range of cars above its present 900 and 9000 segments, the reverse of the task facing Ford, which plans to add a new lower range to Jaguar's luxury cars in tbe executive car segment.

Both GM and Ford face a long haul to make their new investments pay dividends, and it could take a decade to see if the gambler throws by the US giants in recent weeks produce the hoped-for pay-off.

Ghosts of Christmases to come

By Anthony Harris in Washington

Who said of whom that "X has established a consistent record of facing up to serious problems and failing to solve them"?

Mr Bush of Mr Gorbachev? Mrs Thatcher of Mr Lawson? Any Democrat of Budget Director Richard Darman? Any Republican of Governor Dukakis? Actually, it is Professor Alan Meltzer, a Chicago monetarist, of Treasury Secretary Nicholas Brady; but it is interesting how universally this cap fits. The most hopeful year since the victory of 1945 has set a forbidding agenda for the 1990s.

President Bush, who complained in his first year in office that he had not really been tested, should have no complaint about 1990. He faces a much bigger budget problem than in 1989 with a dangerous slowing economy; the defence budget could provide the opportunity to solve the problem, but it will require real leadership to grasp it. The Pentagon is now studying really radical cuts – a halving of forces in Europe, and the cancellation of whole programmes; but while the first will be popular on Capitol Hill, each programme has its filibustering defenders.

The Federal Reserve, whose Open Market Committee is meeting today, has had a good year; but now it looks as if gradualism may not be enough. Mr Alan Greenspan has given many warnings about the dangers of excessive corporate debt, but it is only recently that over-geared companies have found that they can neither renew their credits in the bombed-out market for junk bonds, nor get reasonable prices for their unwanted assets. A deep recession could be financially ruinous, yet if the Fed moves too quickly to forstall one, it risks its credibility.

Private debt is in fact a much more serious problem than the federal deficit, as the markets clearly know. The yield gap between corporate and government debt grows as investors seek quality; but recession talk drives up the price of gold, not of bonds, for fear of the great bale-outs to come.

The savings and loan crisis may be only a preview, and that is bad enough.

Now the markets fear that the regional banks may also be sinking under the burden of real estate loans. Total insured deposits now total about $3,600bn; add in mortgage insurance, and the sum approaches $4 trillion.

On top of this, there is a quite unknown exposure to badly-run private sector pension plans, and possibly to large-scale fraud and embezzlement. The total is unknown because the Pension Benefit Guarantee Corporation, which backs the pensions of 66m beneficiaries, has only 300 inspectors to police some 900,000 insured schemes.

Meanwhile, the corporation is already $1.5bn in the red on claims it has had to meet – just as the FSLIC, which covered thrifts until it was merged with the FDIC, was insolvent before the problem was exposed.

President Reagan's war on bureaucracy may prove the most expensive war the US has fought since the big one. Mr Paul Volcker, who chaired a private commission on the public service, has been trying for some time to alert the country to the dangers of weak administration by a demoralised bureaucracy but has confessed that he finds it hard to get anyone to listen.

Mr Reagan has left another legacy which makes it very much harder to solve these problems – or any others. Anti-tax sentiment in this country is now so fierce that both the federal government and many state governments are facing what Mr Volcker, again, in an article yesterday, called budgetary gridlock. Mr Volcker wants the country to face the need to make means consistent with ends.

The State of Massachusetts has had a very bad press recently for going to the Japanese banks for credits to keep paying its bills, while Governor Dukakis wrangles with his own supporters over possible solutions. With less publicity, the President is really following the same strategy. That is what investors know when they buy gold.

Events may force the Administration to face this reality (the Congress is much readier to raise taxes to pay for desired programmes), so that the President will join Europe in leading the effort to finance the liberation of central Europe, rather than plead poverty when Mr Lech Walesa askes for help. However, if the domestic crisis is to be solved rather than baled out, he will have to take the lead in a big change in American thinking.

The President and the Secretary of State, Mr James Baker, have both been heard to complain recently that the real problem with the new democracies is that they do not understand the market economy; but this is another cap which fits more than one head.

Only a handful of academics have yet pointed out that the private debt crisis is a predictable result of what bankers call moral hazard: federal insurance schemes are an incentive to excessive risk-taking. Such schemes should therefore either be heavily policed or abolished. The first solution offends laissez-faire prejudice, the second is regarded as "politically impossible".

Meanwhile, another politically impossible proposal based on sound market economics is winning support from the most embarrassing quarters. The legalisation of hard drugs is now being preached by such pillars of the right as Mr George Schulz, the former Secretary of State, and Professor Milton Friedman. The drug "czar", Mr William Bennett, is in a tearing rage about this, and is appearing everywhere – at Harvard, on television, and in newspaper columns – to denounce the intellectuals, the only label which embraces all his critics.

Mr Bennett is showing his sound populist instincts in this stand; and populism will no doubt sustain the street warfare which results, just as it will sustain open-ended "protection" from fraud and folly, and may impose protectionism, if Mr Richard Gephardt, gets his way.

And that, perhaps, is a microcosm of the challenge which the US must face in the 1990s. In the east, the question is whether democracy can survive privation and excessive bureaucracy. Here, it is whether it can survive populism, and a hollowed-out administrative machine.

Economics Notebook

Queen Beatrix spreads fears

AT THE Strasbourg summit, the European Community agreed to embark on the road to economic and monetary union (EMU), with an intergovernmental conference to revise the EC treaties to be called by the end of next year.

At first sight, only the UK appears to have difficulty swallowing this programme. On closer examination, however, it looks, as though tha "Queen Beatrix effect" has swept a good many concrete objections under the carpet, as a recent conference on international monetary policy, organised in Paris by the Banque de France, made clear.

It was Queen Beatrix who, at the recent opening of the Dntch parliament, declared that "the Netherlands Government sees the realisation of an EMU as a natural consequence of the implementation of the internal market".

The Queen Beatrix effect, by which European politicians instinctively leap from the realisation of the 1992 internal market programme to the idea of permanently fixed exchange rates and then full monetary union, sends shivers down the spines of some hard economists, such as the Bundesbank in West Germany.

"It may be difficult to argue, on the basis of hard economics, in favour of reasonable flexibility of European exchange rates once the pure politics of monetary integration are accorded an overwhelming weight," commented Mr Hermann-Josef Dndlsr, deputy head of the Bundesbank research department, at the Paris conference.

Mr Dudler noted with anxiety that France, and some other countries, favoured a transition to a *de facto* fixed exchange rate system as early as the first stage of the EMU plan outlined by Mr Jacques Delors, president of the European Commission, whereas the Delors report itself does not speak of fixing rates until a still distant third stage.

The problem with this approach, according to Mr Andrew Crockett of the Bank of England, is that it involves giving up both the exchange rate and interest rates as tools of economic adjustment at a time when other adjustment mechanisms, such as labour mobility and price systems, are far from adequately developed in Europe.

Already, the emphasis on avoiding realignments within the exchange rate mechanism of the European Monetary System has meant an extensive use of interest rates as a tool of external policy, "not fully in accordance with the Bundesbank's interpretation of the functioning of the EMS", according to Mr Dudler.

This leaves fiscal policy as the principal tool remaining available for economic adjustment between the different countries of Europe – whether because one country has allowed inflation to accelerate faster than another, or because an external shock has affected different countries in different degrees.

But budgets, according to most participants in the Banque de France conference, are better suited to medium-term perspective.

"An appropriate fiscal policy should be guided by considerations of long-term efficiency, resource allocation, income distribution and economic growth – rather than by short-term considerations of demand management and fine tuning," noted Mr Jacob Frenkel and Mr Morris Goldstein of the International Monetary Fund's research department.

It is by no means clear what Queen Beatrix's own reaction would be to this emphasis on budget policy as the means for adjustment. France's socialist government, however, has had enough of an argument this year with its own members, who thought its 1990 budget was not left wing enough, to raise doubts over what its views would be.

Perhaps the Queen Beatrix effect may prevail over hard economics, but will it be strong enough in the face of hard budget bargaining?

Investment

Back in the real economy, capital investment has over the last few years been the most dynamic component of France'e economic growth. After stagnating from 1980 to 1984, prodnctive corporate investment started to pick up strongly in 1985, and since 1988, industrial companies have shared in this investment rise.

The latest poll of investment intentions conducted by Insee, the French etate economics office, suggests that this strong investment trend may be set to continue.

Industrial managers questioned in November said that their total investments this year would be around 13 per cent higher in value than in 1988. For 1990, they are expected to increase their investments by 14 to 15 per cent – and these figures exclnde leased equipment, a sector which has been growing fast.

More than 20 per cent of this investment is destined for expanding capacity, but there are still signs of increasing production bottlenecks in many industrial sectors. Economists at Crsdit National, the long-term financing institution, say that many companies are still reluctant to boost capacity for fear of a reversal in the demand trend.

George Graham

THIS WEEK

A STEADY flow of economic indicators from the world's leading industrial nations this week is unlikely to disturb international financial markets, which have already started winding down ahead of the Christmas and New Year holidays.

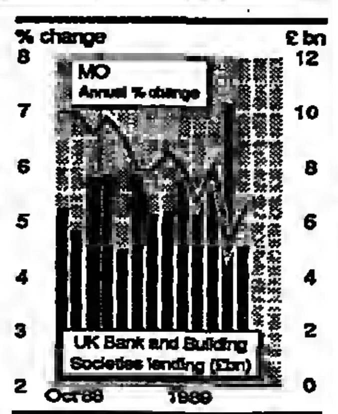
From Thursday evening, however, economic commentators will have plenty to ponder in the Paris-based Organisation for Economic Co-operation and Development'e latest twice-yearly Economic Outlook for the industrialised world.

The document is expected to forecast a slowdown to more sustainable 2.9 per cent growth in 1990 for the 24 OECD nations from 3.6 per cent this year. However, it can also be expected to warn of continuing inflationary pressures and may forecast a slight quickening of OECD inflation to 4.5 per cent in 1990 from 4.4 per cent in 1989.

The report should also highlight the growing differentiation in economic performance between the Anglo-Saxon countries – the US, Britain and Canada – which face lower-than-average growth next year, and Japan and the main European Community countries, which continue to enjoy strong activity.

In Britain, attention is likely to focus on Wednesday's money supply and lending statistics for November. M0, the narrow measure of money supply, is expected still to be outside the Government's target range of 1 per cent to 5 per cent growth for the current financial year, while bank and building society lending is thought to have revived in the month.

The consensus of analysts' forecasts compiled by MMS, the financial research company, is for an 5.5 per cent annual increase in M0 in November after 5.2 per cent in October and a jump of £7.8bn in bank and building society lending compared with October's £5bn. The M4 broad money measure is expected to show 17.4 per cent annual growth in November.



During the week, West German monetary statistics for November ebould show tbe Bundesbank on course to meet its annual money supply target for the first time since 1985.

Other events (with MMS consensus in brackets) include:

Today: UK, November Public Sector Borrowing Requirement (flat). US, two-day meeting of Federal Open Market Committee starts. Brussels, meeting of European Community economics and finance ministers.

Tomorrow: US, November consumer prices (op 0.3 per cent), housing starts (1.42m). France, October industrial production, Bank of France president Jacqnes de Larosière holds press conference on monetary policy. Japan, October personal income and expenditure.

Wednesday: UK, third-quarter average GDP (up an annual 1.5 per cent), autumn survey of manufacturing industry investment intentions. Canada, October retail trade.

Thursday: UK, November cyclical indicators, November provisional vehicles production. West Germany, November import and export prices.

Friday: UK, building societies' November figures. US, release of minotes of November FOMC meeting, November durable goods orders (minus 0.6 per cent).

UK COMPANY NEWS

UK Paper talks could lead to alternative offer

By Ray Bashford

UK PAPER, which has agreed to a £268m takeover bid from Metsa-Serla, the Finnish forest products group, has held discussions with at least one other company interested in making an alternative offer.

The possibility of a new offer this week has emerged after disquiet among City analysts about the terms of the Finnish bid for Britain's biggest fine paper manufacturer, which was announced last month.

A UK Paper director who represents a relatively large slice of the capital is understood to have expressed reservations about the 330p a share offer.

The company's shares have traded consistently above the offer price, reflecting a belief in the market that there might be an alternative offer.

UK Paper achieved independence in September 1986 through a management buy-out from Bowater Industries for £38m and when it was floated on the Stock Exchange in March last year was valued at £108m.

Fletcher Challenge, the diversified New Zealand forest products group, is understood to have been one of the companies involved in discussions with UK Paper last week.

The New Zealand company is one of only six large integrated paper businesses which would be interested in expanding further through the acquisition of UK Paper.

Discussions with several of these other companies took place before the announcement of the Finnish offer, an analyst said yesterday.

"Talks were held with a number of people but only the Finnish company was willing to put the offer on the table. I think you could say that it is still a highly fluid situation," he added.

Directors control about 9 per cent of UK Paper's capital. The board's failure to give irrevocable undertakings to accept the offer, which is common in agreed bids, has heightened speculation that the board believed an alternative bid was possible.

CH Inds growth slows to 29% midway

By Clare Pearson

PRE-TAX profits growth at CH Industrials, the holding company with interests ranging from truck cabs to mannequins, slowed to 29 per cent in the half-year to end-September.

The advance to £7.32m (£5.67m) was scored on turnover 44 per cent higher at £116.23m (£80.57m).

Fully-diluted earnings per share rose by 6 per cent to 5.94p (5.57p). The interim dividend lifted to 1.2p (1.1p).

The company said the results incorporated big downturns in two of the divisions: household products and furnishings and office products and shopfittings. Operating profits from these were £580,000 (£1.5m) and £690,000 (£1.61m) respectively.

The company said the falls reflected downturns in the UK retail and housebuilding sectors, as well as a fire at a Bristol factory which hit otherwise buoyant office furniture sales.

Specialist engineering and design doubled its operating profits to £3.91m (£1.95m). Property and investment activities carried out in wholly-owned subsidiaries made £1.58m (£669,000).

Lovell warns of threat to Higgs' profits

By Ray Bashford

YJ LOVELL has written to shareholders of Higgs and Hill suggesting that its competitor in the housing and construction field is facing an increasing threat to profits from its exposure to the private housing market.

In reply to Higgs and Hill's takeover defence document, Lovell directors claim that private housing construction has become a growing contributor to its target's pre-tax profits during the past five years.

Sir Brian Hill, chairman of Higgs and Hill, said that the statement supporting the £137m takeover offer contained a number of erroneous claims which the company is expected to reply to when it releases its profit forecast before the end of the year.

Lovell's document claims that private housing contributed 30 per cent of pre-tax profits in 1984 but the figure last year grew to 48 per cent.

Mr Andrew Wassell, Lovell's chief executive, said a takeover would achieve a "well-balanced group" better able to meet altered competitive conditions. Higgs and Hill's defence document over-emphasised the importance of construction to group profits and played down the significance of housing, he added.

ML sale to ABB

ML Holdings, the aerospace, electronics and defence group, has sold the shares it owned in its signalling subsidiary, ML Engineering (Plymouth), to EB Signal, a Norwegian-quoted subsidiary of Asea Brown Boveri, the Swiss and Swedish electrical engineering group.

EB paid £250,000 in June for an option to buy ML's shares in MLE(P) and towards the consideration of £1.5m. EB also subscribed £500,000 for new MLE(P) shares.

FT Share Service

Albion (Section: Textiles)
Automobiles of Distinction (Third Market)
Baxhuild Developments (Property)
Cambridge Grp. (Hire Purchase, Leasing)
Courtyard Leisure (Third Market)
Pacific Horizon Inv. Tst. (Trusts)
Pacific Horizon Inv. Tst. Wrrnts. (Trusts)
Stera B Free (Industrials)
Toothill (R.W.) (Industrials)

£1.9m French buy for W Canning

W Canning, the Birmingham-based speciality chemicals and industrial distribution group, is strengthening its position in continental Europe through the acquisition of Relco, a French speciality chemicals business, for £1.9m cash.

Canning will also provide up to £2.1m to refinance existing borrowings.

EMAP abandons Builder interest

By Nikki Tait

EMAP, the UK printing and publishing group, has effectively abandoned any interest in The Builder Group, already subject to a recommended bid from Paris-based CEP Communication, when it sold its 11.42 per cent stake in the smaller specialist publishing company.

The 1.88m shares were sold at 341½p, cum dividend - in line with the cash offer price from CEP. As a result, CEP said that it now owns 2.9m shares, representing 17.6 per cent of Builder's equity, with irrevocable undertakings to accept the offer from shareholders speaking for another 30.4 per cent.

NEWS DIGEST

LMS lifted by interest turnround

LONDON Merchant Securities, the holding company 50.78 per cent owned by Westpool Investment Trust, lifted pre-tax profits by 69 per cent to £11.83m in the six months to September 30.

This was in part the result of an interest turnround - from a charge last time of £3.9m to a credit this of £332,000.

At the trading level, leisure increased its contribution to £2.45m (£1.71m) and property chipped in £148,000 (£112,000). Net rental income grew to £10.1m (£9.53m).

Earnings per share improved to 2.88p (1.67p) and the interim dividend is an unchanged 0.8p.

Lapse into losses at Radiant Metal

Radiant Metal Finishing, which specialises in electroplating and residential property development, reported an operating loss of £21,327 for the half year to August 31, against a profit of £163,650 last time.

Turnover rose from £724,787 to £971,126. Earnings per share fell from 7.88p to nil, and there is no interim dividend.

Decline to £1m at Waverley Cameron

Pre-tax profits at Waverley Cameron, the Edinburgh-based office equipment supplier, fell from £1.19m to £1.01m in the six months to September 30.

Turnover rose to £25.08m (£22.88m) and operating profits grew to £1.56m (£1.47m). The interest charge was almost doubled to £552,000.

After tax of £352,000 (£428,000), earnings worked through at 0.55p (1.65p) per share and 1.15p (1.34p) assuming full conversion of preference shares. The interim dividend is maintained at 0.3p.

Factoring blamed for downturn at TGI

A reduced contribution from its Goodmans' factored product operations was the principal reason for the profits downfall at TGI in the six months to September 30.

The audio products and loudspeaker group lifted turnover 9 per cent to £25.22m (£23.05m) but the pre-tax result fell from £1.92m to £1.11m.

Earnings per share dropped in 4.2p (7p) but the interim dividend is lifted to 2.2p (2p).

Bremner returns to dividend list

Bremner, the Glasgow-based stockbroker and property investor and developer, reported higher pre-tax profits of £92,500, against £23,300, for the six months to December 1, and is returning to the dividend list with a 1p interim.

The result was based on higher interest received of £277,000 (£198,000) and lower administration costs of £177,000 (£231,000). Property investment and management returned lower trading profits of £34,000 (£81,000) and there was an increased loss from stockbroking of £42,000 (£24,000).

After tax of £54,000 (£8,000) earnings per share were 0.38p (0.13p). There was an extraordinary credit of £2.41m (£68,000 debit).

Sharp rise to £1.86m at Tops Estates

Tops Estates, the freehold shop and office properties investor, achieved a sharp increase in profits at the pre-tax level from £468,000 to £1.86m in the six months to September 30.

However the company said that at the trading level, profits had advanced 70 per cent to £3.96m (£2.33m). This was before administrative expenses of £378,000 (£167,000); other non-recurring income of £1.06m (nil); interest on loans of £3.86m (£1.81m); and interest received on short-term deposits of £1.08m (£119,000).

Earnings rose to 3.69p (1.08p) per share, but there is no interim dividend as usual.

Admin expenses add to losses at SelecTV

Higher administration expenses led to increased pre-tax losses of £182,968 for the six months to September 30 for SelecTV, the USM-quoted subscription television operator. Losses last time amounted to £41,909, and for the year to March 1989 were £156,161.

Turnover fell to £13,148 (£23,171) with cost of sales at £13,008 (nil). Administrative expenses rose to £284,160 (£68,125) and losses per 1p share increased to 0.28p (0.15p).

Unleaded petrol sales boost Micrelec

The increasing demand for unleaded petrol helped Micrelec, supplier of services to petrol stations, increase taxable profits 22 per cent from £634,000 to £776,000 in the six months to September 30.

Turnover for the USM-quoted company was 41 per cent higher at £6.86m (£4.88m). Earnings per share came out at 4.86p (3.89p) and the interim dividend has been raised to 1.2p (1p).

Alexander Russell static at £1.65m

Alexander Russell saw only a small increase in taxable profits from £1.61m to £1.65m for the six months to the end of September despite a 12 per cent rise in turnover to £22.71m, against £20.21m.

Earnings per share were 3.39p (3.71p) and the interim dividend is again 0.54p.

Bristol Evening Post warns of downturn

Bristol Evening Post, the West Country newspaper proprietor, lifted pre-tax profits from £3.97m to £4.17m in the six months to September 30.

However the company said that trading conditions had become more difficult and that advertising revenues for the second half might well not equal those of the equivalent period last time.

After intra group sales and rents, turnover totalled £31.18m (£28.54m). Trading profits amounted to £3.87m (£3.8m). Earnings were up at 10.68p (9.91p) per share and the interim dividend is lifted to 3.75p (3.5p).

FINANCIAL TIMES STOCK INDICES

	Dec 15	Dec 14	Dec 13	Dec 12	Dec 11	Dec 8	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.99	83.68	83.66	83.77	83.62	83.14	89.29	82.93	127.4	49.18
Fixed Interest	92.25	92.27	92.19	92.21	92.13	92.02	99.59	92.02	105.4	50.53
Ordinary	1852.7	1871.4	1880.1	1861.5	1851.8	1862.0	2008.6	1447.8	2008.6	49.4
Gold Mines	308.4	311.6	317.8	317.4	312.8	308.5	317.8	154.7	734.7	43.5
FT-Act All Share	1169.73	1179.48	1186.76	1177.00	1172.04	1176.92	1225.80	921.22	1238.57	61.92
FT-SE 100	2344.7	2367.0	2386.2	2363.5	2351.4	2363.5	2426.0	1782.8	2443.4	986.9

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Seasonal torpor fails to materialise

NEW DEALS continue to emerge in the international loans market – and many more are said to be waiting for the new year – as the business fails to display its usual seasonal torpor.

Kingfisher, the stores group making a £568m bid for Dixons, the electrical retailer, disclosed the details of a £1.4bn financing which will restructure existing facilities and fund the proposed acquisition.

The loan is underwritten by Midland and Banque Nationale de Paris, both committing £465m, Amsterdam-Rotterdam, £250m and Toronto-Dominion, £220m. Selected banks with which the company intends to maintain important relations are being asked by Kingfisher to help in underwriting the financing, which will remain in place even if the bid is referred to the Monopolies and Mergers Commission.

The deal is for three years and carries a facility fee of 10 basis points if less than £700m is drawn and 15 basis points for larger amounts. Also, there is a margin of 25 basis points, which falls to 15 basis points after one year provided less than £700m is outstanding.

While the deal may be defined according to the strict guidelines of the US Federal Reserve as a highly-leveraged transaction, its leading bankers are viewing it as a well-priced corporate credit. Some banks may be put off by Dixon's exposure to the current uncertain retail environment, although its share price has to some extent taken that into account. However, the attraction of a corporate relationship and a relatively short maturity should sell the deal.

Ford has raised £600m from banks, without the help of a bank arranger, for its acquisition of Jaguar. Ten banks are said to have agreed to provide £50m each for the credit.

The three-year loan carries a facility fee of 7.5 basis points for two years and 10 basis points for the remainder, and a margin of 12.5 basis points, with the borrower paying reserve asset costs.

Stephen Fidler

YEN EQUITY WARRANTS

Euromarket brokers face fresh challenge from Tokyo

BROKERS IN the London-based Euromarkets, who have been unsettled by moves by the Japanese Ministry of Finance (MoF) to tighten regulation of US-dollar denominated equity warrant issues in the Euromarket, face a new challenge from Tokyo.

The fledgling Tokyo market in yen-denominated warrants, a tiny competitor to the Eurowarrant market, is likely to receive a powerful boost from Nippon Steel, Japan's largest steelmaker. Nippon Steel is about to become the largest company so far to use the Tokyo market – for a Y100bn warrant bond issue which is likely to be made in January.

Equity warrants are a huge source of low-cost finance for Japanese companies. Warrants give the holder the right to buy stock in a company at a set price. The warrants are issued attached to a bond then they are split from the bonds and traded separately. The interest rate is lower than for a straightforward bond issue.

Although there are some technical reasons for Nippon Steel's choice of Tokyo, other companies are expected to follow its example because the cost of dollar warrants compared with yen warrants has risen strongly in recent months. They will be encouraged to do so by the MoF which has been trying hard to promote the Tokyo market.

For brokers in the Euromarkets, news of Nippon Steel's plans come at a very sensitive time. Last week they learnt that the MoF is considering tough measures to increase investor protection in the Eurowarrant market. Although the primary issues are made in London, some 70 per cent of the paper is bought by Japanese investors, some of them private individuals.

The ministry believes individual investors are often exploited because two-way prices for warrants are not sufficiently well publicised. It is prepared to force brokers to list dollar warrants on the Tokyo Stock Exchange – but is ready to listen to other suggestions. Securities companies are lobbying the ministry not to enforce listings.

The timing of Nippon Steel's move seems coincidental – although it is convenient for the ministry to be able to point to a large Japanese company which is happy to issue warrants in Tokyo and have them listed on the TSE.

The MoF has tried this year to make Tokyo a more attractive place for issuing warrant bonds by scrapping a classification requirement which had previously forced borrowers to pay high interest rates. Officials have also allowed brokers to split warrants from bonds more quickly in the course of an issue – so permitting them to be sold separately.

In the spring, Daiei, a supermarket group, became the first company to issue warrant bonds in Tokyo since 1987 with a Y40bn offering. It has been followed by eight others – including Haseko, a trading company which made two issues totalling Y100bn, and Osaka Gas, with an Y80bn offering. This pales in comparison with the 330-plus dollar warrant Eurobonds worth over $55bn issued so far this year. However, if Nippon Steel's move encourages other groups to switch to Tokyo, the impact would soon be felt in London.

The cost of dollar warrants has been rising since the summer. Japanese borrowers typically turn the proceeds of a dollar warrant issue into yen through a currency swap.

On this basis, the effective cost, in yen terms, of dollar warrant bonds has risen from under 0.5 per cent in the first quarter of 1989 (on some issues the interest rate was negative – in effect companies were being paid to borrow) to a range of 1.1 to 1.5 per cent this month, according to Yamaichi. The cost of issuing yen warrant bonds has risen much less and is now about 0.5 per cent.

The reason that Japanese companies have not all been rushing for the Tokyo warrant market is that the MoF imposes various restrictions on fund-raising. One is that the amounts of bonds a Japanese company can issue is determined by the size of its existing capital and reserves. The limit for domestic fund-raising of unsecured funds is roughly half the limit for overseas fund-raising. So, companies can raise more funds overseas.

Another rule sets the limit for secured funds twice as high as unsecured. But large companies generally do not issue secured bonds – mainly for reasons of pride. Nippon Steel's proposed issue will however be secured. The company declined to comment. But brokers said the group was close to its fund-raising limits on other categories of bond.

Stefan Wagstyl

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Ishikawajima-Harima♦◆	500	1993	4	2½	100	Yamaichi Int	2.500
FMC Corp§◆	75	2005	15	6¾	100	Morgan Stanley Int	6.750
MBE Finance◆(a)	00	2000	11	(a)	102	Mitsubishi Fin Int	-
Polly Peck Int.Fin§	110	2005	15	(7-7¼)	100	Shearson L'man Int	-
Vitamin Ltd†◆	60	1993	4	(f)	100.10	Nippon Credit Int	-
Republic of Austria◆	400	2000	11	8½	99½	Daiwa(Europe)	8.577
Banco di Roma (London)†◆	200	1999	10	(u)	100	Paribas Cap.Mkts	-
Nissan Int.Fin◆	50	1993	4	8½	101¼	IBJ Int	8.122
AFER BV†◆(c3)	500	1998	9	(c4)	100	BNP Cap.Mkts	-
AFER BV‡◆(c3)	50	-	4	(c5)	100	BNP Cap.Mkts	-
AFER BV‡◆(c3)	55	1998	9	(c6)	100	BNP Cap.Mkts	-
CANADIAN DOLLARS							
Finnish Export Credit◆	100	1997	8	Zero	52.00	Wood Gundy	8.517
AUSTRALIAN DOLLARS							
State Elec.Com.Victoria◆	200	2000	11	Zero	31.45	Samuel Montagu	11.089
PK Banken◆(w)	125	1990	1	9	94.80	Paribas Cap.Mkts	14.979
DM-MARKS							
Sumitomo Construction♦◆	150	1993	4	1⅞	100	WestLB	1.625
Dynic Corp♦◆	100	1993	4	1⅝	100	Deutsche Bank	1.625
Dresdner Fin.‡	1bn	2000	10	(b)	100.05	Dresdner Bank	-
AGAB Fin♦◆	50	1993	4	7⅞	112	DG Bank	4.528
SWISS FRANCS							
Footwork Corp§◆(m)	70	1994	-	Zero	100	BSI	*
Nokia Corp◆	100	1997	-	6¾	100¾	Nordfinanz Bk	6.626
Komai Tekko§(l)	60	1995	-	¼	100	Nomura Bk (Switz)	0.250
FRENCH FRANCS							
Interfin.Cred.Nat.◆(b2)	800	1991	2	10¼	100.80	Credit Lyonnais	9.790
Barclays Bank Plc◆	700	1991	2	10¼	100.80	CCF	9.790
ECUs							
Council of Europe◆	75	1995	6	9¾	101⅞	Morgan Stanley	9.328
LIRA							
World Bank◆	200bn	1995	6	12¼	101.55	BCI	11.874
PESETAS							
European Inv.Bk◆	15bn	1995	6	13.1	100	Banco Bilbao Vizcaya	13.100
IRISH POUND							
Kredietbank Int.Fin.◆	50	1993	4	11	101.35	Kredietbank NV	10.569
STERLING							
European Investment Bank◆	100(v)	1999	10	10½	93.75	Kleinwort Benson	11.531
YEN							
Toyota-Tsusho Fin.Int◆(c)	2.5bn	1990	1	(c)	100⅞	Ryoko Securities Int	-
Toyota-Tsusho Fin.Int◆(d)	1.5bn	1990	1	(d)	100⅞	Ryoko Securities Int	-
Helaba Finance◆	10bn	1993	4	6.15	101⅞	IBJ Int	5.770
Skopbank◆	6.7bn	1990	1	7	101⅛	New Japan Securities	5.610
Baltica Bank◆(e)	15bn	1995	6	6.6	101.82	Daiwa (Europe)	6.226
Skopbank◆	10bn(g)	1993	4	(h)	101⅞	IBJ Int	-
Kingdom of Denmark◆	25bn	1995	6	6¼	101¾	LTCB Int	5.895
Landeskreditbank◆	7.2bn	1992	3	6¼	101¼	Morgan Stanley	5.784
State Bk of NSW◆	15bn	1993	4	6¼	101¼	Nomura Int	5.890
Girozentrale Vienna◆	10bn(j)	1993	4	(k)	101⅝	Daiwa (Europe)	-
State Bk.S.Australia◆(i)	3.5bn	1992	3	7½	101⅛	Nomura Int	7.071
Alliance & Leicester◆	10bn	1992	3	6.3	101⅜	Nikko Securities	5.788
National Bk.of Canada◆	10bn	1993	4	6⅜	101½	Sanwa Int	5.943
Elkraft Power Co.◆	2bn	1993	4	(n)	101⅝	Sanwa Int	-
Compagnie Bancaire◆	15bn	1993	4	6.30	101⅜	IBT Int Ltd	5.833
Cariplo◆	10bn	1993	4	6¼	101¼	Nomura Int	5.890
Kansallis Osk.Pan.◆(o)	5bn	1993	4	6½(p)	93¾	Daiwa (Europe)	8.404
Kansallis Osk.Pan.◆(o)	0.5bn	1993	4	6½(p)	101⅞	Daiwa (Europe)	6.084
CIBC†◆(q)	2bn	1990	1	(r)	100⅞	Mitsubishi Finance	-
CIBC‡◆(q)	1bn	1990	1	(s)	100⅞	Mitsubishi Finance	- -
Kingdom of Denmark◆(l)	30bn	1995	6	6¼	101¾	LTCB Int	5.895
Electricite de France◆	30bn	1995	6	7.1	101⅞	Nomura Int	6.865
Skopbank◆(y)	3bn	1992	3	(x)	101⅛	Yamaichi Int	-
Industrial Cred.Corp.†◆	3bn	1993	4	(a1)	120	LTCB Int	-
Swedish Nat.Hous.Fin.◆(b2	10bn	1995	6	6¼	101⅜	Nomura Securities	5.895
LUXEMBOURG FRANCS							
Council of Europe☆☆◆	300	1993	4	9½	101¼	Credit Europeen	9.113
Renault Acceptance☆☆◆(z)	300	1993	4	9½	101.50	Credit Europeen	9.037
Cera Bk.Lux.☆☆◆	300	1993	4	9½	101.50	Credit Europeen	9.037
Caisse Cent.Raiffeisen☆☆◆	300	1993	4	9½	101	B.C.E.E.	9.190
Rabo Bk.Lux.☆☆◆	300	1993	4	9½	101¼	B.C.E.E.	9.113
K.B.Lux☆☆◆	300	1995	6	Zero	64⅝	K.B.Lux	7.547
Sparekassen☆☆◆	300	1993	4	9½	100⅝	B.G.L.	9.306
Svenska Handelsbanken☆☆◆	300	1993	4	9½	101.18	B.I.L.	9.135

*Not yet priced. ☆☆Private placement. ♦With equity warrants. §Convertible. ◆Final terms. †Floating rate note. a)3 tranche issue, first pays 6-month yen Libor plus 35bps for 2 yrs then 8¼%. Second pays 6-month Libor plus 60bp then 8½% + third 6-month Libor plus 80bp then 8%. Each tranche is 320m. b)Put call option after 5 yrs. c)For 3 months 3-month Libor + 0.0625%, then rising to 20bp. Nikkei-linked redemption. d)For 3 months 0.0625%, then fixed at 7.4625%. Nikkei-linked redemption. e)Call option at par on 12/4/91. f)6 month Libor + 10bps. g)5bn on tap. h)Nikkei-linked coupon. i)Yield to put 3.213%. j)Initial tranche 5bn. k)Nikkei-linked coupon. l)Nikkei-linked redemption. m)Put option 31/3/92 at 107⅞ to yield 3.202%. n)Initial 3 month Libor + 25bps then formula applies. Nikkei-linked coupon. o)Issue in two tranches. Nikkei-linked redemption. p)3 month Libor + 25 for first 3 months thereafter fixed at annual rates. q)Issue in two tranches. Nikkei-linked redemption. r)For 3 months, yen Libor + ⅛ then + 150bps. s)For 3 months, yen Libor + ⅛, then + 90bps. t)Issue update. u)3 month Libor. v)Further tranche of £200m in existing deal. w)Issue update. x)3 month Libor + 12.5bps then 7⅛%. y)Nikkei-linked redemption. z)Two tranches of 300m. a1)Long term prime rate 30bps. b2)Issue update. c3)Issue launched in 3 tranches. c4)1 month Libor + 25 bps. c5)1 month Libor + 75 bps. c6)1 month Libor + 2.75%. Note: Yields are calculated on AIBD basis.

EUROBONDS

Positive response for LBO backed deal

A $625M four-tranche Eurobond backed by US leveraged buy-out loans was launched by BNP Capital Markets on Friday as expected. Credit National was a joint lead manager on the deal which came through Afer BV, a special-purpose vehicle. BNP said the response had been encouraging given the time of year.

The main $500m tranche, guaranteed by Financial Security Assurance, carries a margin of 25 basis points over one-month Libor and has an average life of 3¼ years. The notes were trading at 99.80 bid, a discount equivalent to full underwriting fees.

The lower-quality B and C slices, which do not carry a credit guarantee, were mainly pre-placed with institutional investors, and were underwritten by just three houses: BNP, Crédit National and Kleinwort Benson.

The $20m D tranche was pre-placed with five institutions at a margin of 24 basis points over Libor. The tranche will be the first to absorb any losses on the underlying pool of loans, and the margin will decrease if there are any early prepayments on the loans.

The $625m portfolio of loans was purchased from 20 US financial institutions, with Chemical Bank acting as the sourcing agent.

All the loans are amortising, secured-term loans and cover 30 US leveraged buy-outs. Among the deals involved are Black & Decker, Burlington, Stone Continental and RJR Nabisco.

No single loan makes up more than 5 per cent of the portfolio, and no industry accounts for more than 10 per cent of the pool. The original total amount of the term loans was $28.5bn, and around $20bn is thought to be outstanding.

The average life of the tranches was calculated on the assumption that only mandatory payments would occur on the loans. If there are any optional prepayments, this should shorten the average life on the note issues.

Andrew Freeman

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Trade deficit poses further threats

LAST FRIDAY, a critically important barrage of statistical releases had less effect on the financial markets than a fantastic rumour that Panama had declared war on the US.

The penchant for quixotic causes presumably had something to do with seasonal high spirits, but there may bave been another reason for investors' apparent indifference to economic facts. Everybody seemed so reassuringly agreed on prospects for the economy and monetary policy in the near future. So wby worry about new *facts*?

The answer, of course, is the oldest and the most frequently forgotten adage in the investment business. Whst everybody knows is usually not worth knowing.

What everybody knows these days in US bond and money markets is that the Federal Reserve will soon be lowering its Federal funds target from 8½ to 8¼ per cent. Beyond that, almost everyone agrees that a further round of easing will cut Fed funds to 8 per cent sometime early next year.

To anyone who cared to notice, however, the recent economic statistics snggested several reasons to question how long the monetary relaxation would go on.

Most obviously, there was the central banker's usual dilemma between inflation and sustained growth. The analysts seemed generally delighted with the 0.1 per cent drop in the producer prices index (PPI) announced on Friday, even tbough tbe 0.2 per cent increase excluding energy and food was rigbt in line witb expectations.

The PPI for the first 11 months of this year, however, has grown at an annual rate of 4.6 per cent, much higher than the 3.8 per cent of 1988.

Given that energy prices are again rising sharply this winter, it would seem premature for the Fed to declare a victory.

Of course, few analysts these days believe that lowering inflation is necessary for a monetary easing. Confronted with a choice between inflation and recession, the Fed would doubtless ease as dramatically as a generally indulgent bond market would allow. But how likely is the Fed to face a serious recession within the next year or so?

The answer depends largely on events in tha foreign exchange market, as evidenced by Friday's most important economic release – the October trade statistics.

These figures revealed that the OECD, the IMF and the legions of "discredited" academic economists who had been warning of dire trade consequences from a rising dollar may not have been as foolish as the financial markets thought.

It is now apparent that something extremely significant was happening this antumn, just when the traders were laughing at the Group of Seven for its warnings about the rampant dollar. Exactly as the discredited *IMF* and *OECD projections* had suggested, the US trade performance was deteriorating, the growth of exports was *stalling* and the trend of imports was turning moderately but decisively up.

Consider the figures. The three month *moving* average trade deficit fell from $9.3bn in January-March to $8.8bn in April-June and then stalled at *that level until August. In the* last three months the deficit has risen to $9.0bn and in the last two months to an average of $9.3bn.

What is more significant and less widely recognised than the deficit itself is the way thet exports growth came to an almost complete standstill in the spring of this year. Wall Street, which normally delights in annualising even a single month's figures, has somehow become obsessed with year-on-year comparisons of trade figures.

Because of the spectacular surge in US exports last winter, these 12-month comparisons have totally disguised the equally spectacular slowdown in growth during the course of this year. Thus, Friday's trade data appeared to show exports growing at a still-healthy rate of 11 per cent in the year to last October. The growth rate had in fact collapsed to an annualised 1.3 per cent in the six months between April and October.

This compared with a rate of 18.1 per cent in the 12 months before that. Even using three month moving averages, the growth rate since the spring came to a mere 3.4 per cent. Meanwhile, the growth of *imports in the last six months* advanced to 11.6 per cent, compared with 10.4 per cent in the year to last April.

Assuming that the recent trade data prove to be more than an aberration, the consequences for the US economy *and financial markets are* likely to be momentous. A renewed and dramatic widening of the trade deficit would *probably be unacceptable both* to US public opinion and to the foreign exchange market.

As a result, the Group of Seven *and the currency* speculators would for once be pushing in the same direction – in favour of a lower dollar.

What would be the Fed's attitude and role in such a dollar devaluation scenario? It might be to ease monetary policy to push the dollar downwards. However, the opposite seems more likely.

Assuming the dollar continued to weaken in response to trade imbalances, rather than interest differentials – as sterling and numerous other deficit currencies have recently done – the Fed would certainly prefer to tighten money, rather than ease it.

A balance involving higher interest rates and a falling dollar would in many ways offer the US and the Fed an ideal policy mix. As long as the dollar stayed weak, the Fed could continue to raise interest rates to curb *domestic inflation*, since dollar devaluation would revive the manufacturing sector and keep the economy out of *recession*.

Meanwhile, the structural shift from services to manufacturing would assist the Fed in its counter-inflationary task, restraining the growth of unit labour costs and boosting average productivity in the whole economy.

Of course, for the financial markets, a policy mix of rising interest rates and a falling currency would not be so attractive – which is perhaps why nobody on Wall Street seems even to have contemplated this possibility.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.50	8.44	8.38	9.62	8.00
Three-month Treasury bills	7.88	7.82	7.96	9.03	7.37
Six-month Treasury bills	7.78	7.69	7.97	9.03	7.37
Three-month prime CDs	8.40	8.35	8.45	10.35	8.18
30-day Commercial Paper	8.65	8.50	8.42	9.95	8.05
90-day Commercial Paper	8.32	8.20	8.30	10.05	8.14

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	101	+⅜	7.80	7.81	7.86
20-year Treasury	112¾	+⅜	7.94	7.96	7.97
30-year Treasury	103⅛	+⅜	7.85	7.87	7.89

Money supply: In the week ended December 4 M1 fell by $3.3bn to $789.7bn.

NRI TOKYO BOND INDEX

December 1983 = 100	14/12/89	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	148.25	5.89	148.30	149.13	147.43
Government Bonds	148.23	5.62	148.25	148.11	147.27
Municipal Bonds	149.81	6.06	149.83	150.92	149.44
Govt.-guaranteed Bonds	151.08	6.16	150.99	152.05	150.61
Bank Debentures	142.44	6.09	142.46	143.03	141.37
Corporate Bonds	150.38	6.17	151.25	152.04	150.37
Yen-denom. Foreign Bonds	156.19	6.48	156.00	156.49	155.34
Government 10-year†		5.42	5.39	5.20	5.19

† Estimated par yield. Source: Nomura Research Institute

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	3,495.0	0.0	0.0	8,409.9
Prev	812.1	0.0	25.0	10,814.5
Other	1,802.6	25.5	0.0	5,082.3
Prev	1,056.8	0.0	874.9	3,083.5
Secondary Market				
US$	11,996.6	690.6	4,445.9	9,852.4
Prev	15,110.1	780.9	4,267.5	7,939.0
Other	14,577.1	931.8	3,429.7	30,202.5
Prev	17,630.5	724.5	3,874.4	38,356.7
	Cedel	**Euroclear**	**Total**	
US$	13,347.3	25,543.1	38,890.4	
Prev	12,924.2	26,824.9	39,749.1	
Other	22,498.4	33,553.1	56,051.5	
Prev	25,481.2	40,120.1	65,601.3	

Week to December 14, 1989. Source: AIBD

UK GILTS

Overseas investors push up prices

THE GILT-EDGED securities market ended on a firm note on Friday, extending a mini-rally that has been under way for nearly two weeks. The rising trend of prices has been propelled by foreign and domestic institutions which in turn have encouraged the primary dealers to lengthan slightly their own book positions.

It appears that the strength of the market has more to do with the motivations of overseas investors switching from US Treasnries and Germen bunds into gilts. Analysts say domestic interest has been muted but encouraging and it now seems possible that UK funds may go into 1990 with a greater exposure to the market than they did this time last year.

For the US investor tha spread between 10-year gilts and equivalent Treasuries is around 300 basis points – the best it has been for two years. Meanwhile for the investor holding bunds and looking to switch to gilts, the spread is about 375 basis points. While this latter spread is not the best over a two year view – spreads of more than 425 basis points and 400 basis points were on offer during the summer this year and a year ago respectively – they are certainly attractive over the shorter term.

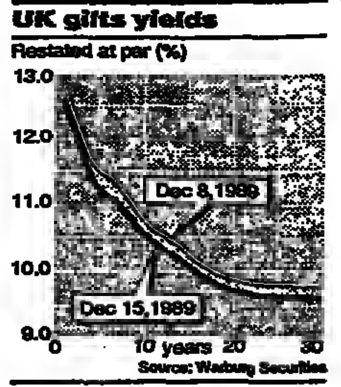
But spreads are not enough in themselves. *Something* encouraging has to be around the corner on the currency front for the risk of moving into gilts – given the inflation risk – to be worthwhile. A switch into gilts now is a strategy that appears to be based on the belief that the strength of the D-Mark will prove transitory and that the dollar market is oversupplied and likely to be dull, the prospect of a Fed easing notwithstanding.

Last week's buying was sufficient to counteract any negative sentiment that gilts could reasonably have been expected to suffer from, following the release of bearisb economic data. With the axception of retail sales figures, which showed that through the year growth in consumption has virtually come to a standstill, the labour market and retail prices figures were worrying. Industrial production figures showed a welcome switchback in output in October from September's erratically low level but did little to alter the fairly flat growth profile seen for the past six months.

Britain's labour market still appears to be tigbtening, although possibly at a slower rate, and this is supporting demands for higher pay settlements and maintaining the pressure on prices at the retail level. The market has bought the Treasury's line on the retail prices index and looks at it exclusive of mortgage interest payments. However it will want to see this measure, *which was up 6.1 per cent at an* annual rate for the second month in succession, moving decisively down before it gets excited.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

The likelihood of this happening with any speed has diminished. November's 7.7 per cent annual rise in inflation locked in a pay rise of 10.2 per cent for Nissan's car workers in the UK. This settlement is expected to stiffen the resolve of Ford and Vauxhall workers; the latter have already rejected a 9.7 per cent pay offer; the former are seeking strike approval from the Ford workforce.

Disappointing as the data were, from an inflation point of view, they support the case of those looking for signs of a weak economy. As such, they have probably reassured those Treasury mandarins who have been concerned that monetary *policy may not have been tight* enough, even with 15 per cent base rates.

Over the past month the Treasury has given serious thought to the need for higher interest rates – in spite of the view at the Bank of England that 14 per cent would have done the job – although this was not a position that found a receptive Chancellor.

The former Chancellor was always fond of letting actions speak louder than words and it seems as though his successor, Mr John Major, is adopting a similar line. If the market had been in any doubt as to whether UK monetary policy would respond, as it used to, to the D-Mark then the "no" was engraved in letters 5 ft tall during last week. The Treasury confirmed on Friday that it no longer shadowed the D-Mark.

Mr Major appears to have done a deal with the Prime Minister. He will desist from targeting the pound and she will show greater sensitivity towards it in her public utterances. This appears to be part of a larger compromise, involving Mr Douglas Hurd, the Foreign Secretary, and Sir Geoffrey Howe, the Deputy Prime Minister, on the Government's attitude toward full membership of the European Monetary System.

In an interview with the FT, Mrs Thatcher softened her line appreciably on the EMS last week, conceding that not all her conditions had to be met fully before the UK joined the Exchange Rate Mechanism.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
200 101¾ +¼		8.56		012509
ABBEY NATIONAL 8⅞ 93	150	100¼	+¼	8.82
AETNA LIFE & CAS 7⅛ 16	200	97¼	+¼	7.97
AHFC O/S.FIN. 11¼ 94	100	101	+¼	11.30
ALBERTA PROVINCE 7⅛ 91	750	98¼	0	8.44
ALBERTA PROVINCE 9⅛ 95	600	104¼	+¼	8.45
ALCOA AUSTRALIA 11 92	80	101¼	+¼	10.44
AMERICAN GENERAL 9⅛ 95	100	103¼	+¼	8.84
[illegible]				

QUEENSLAND GOVT 10¼ 95	100	[illegible]		
RALSTON PURINA 11¼ 95	150	[illegible]		
REYNOLDS R.J. 10⅛ 93	100	[illegible]		
RICHARDSON-VICKS 11¼ 93	125	[illegible]		
ROCKWELL INT 9⅞ 90	200	[illegible]		
S.A.S. 10¼ 95	150	[illegible]		
SAINSBURY 9⅛ 96	150	[illegible]		
SARA LEE 9⅛ 93	150	[illegible]		
SASKATCHEWAN 8½ 91	150	[illegible]		
SASKATCHEWAN 15⅞	150	[illegible]		
[illegible]				

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. [illegible]
FLOATING RATE NOTES: US dollars unless indicated. [illegible]
CONVERTIBLE BONDS: US Dollars unless indicated. [illegible]
WARRANTS: [illegible]
Closing prices on DECEMBER 15

INTERNATIONAL COMPANIES AND FINANCE

Chase Corp posts biggest ever loss by NZ company

By Andrew Pirie in Wellington

CHASE Corporation, the property and investment group, has reported the biggest-ever loss from a New Zealand company, of NZ$841m (US$500m) for the twelve months to June 30.

The loss leaves the beleaguered company – whose assets have been in the hands of a government-appointed manager since July – with shareholders funds showing a deficit of NZ$420m.

But Mr Colin Reynolds, executive chairman, said in Auckland over the weekend that the company would survive. He outlined a plan for it to emerge from the statutory management and to be restructured as a small, property company by the middle of next year.

The plan includes offering repayment deals, probably at a significant discount, to Swiss bond holders and the holders of Euronotes by the end of February. This would be followed by proposals to unsecured lenders, with some properties being released to secured creditors.

The huge loss easily exceeds the previous worst by a New Zealand company, the NZ$648m deficit announced by Bank of New Zealand in June.

Three quarters of the Chase loss came from extraordinary write-downs on investments, following a decision to value the company's assets at net realisable value, rather than on a going-concern basis. The operating loss of NZ$205m also included substantial devaluations on the group's property holdings.

Nearly NZ$250m of the loss came from write-downs on Chase's two main assets: Farmers, the New Zealand department store chain; and a 50 per cent stake in Inter-Chase, an Australian group which owns a large shopping complex in Brisbane. Neither of these assets is included in the statutory management which is effectively an all-powerful receivership covering Chase's New Zealand property interests.

The Government's decision to appoint a manager for the NZ$1.3bn property portfolio was criticised strongly by Chase's bankers, particularly by those which lost the power to exercise the security they held over individual buildings.

But the Government said the move was needed to prevent a wholesale destruction of the New Zealand property market, already suffering its worst-ever recession.

Mr Paul Preston, the statutory manager, predicted over the weekend that his job would continue for a further six months as the affairs of Chase were reorganised.

Mr Reynolds said he expected to stay on as director of the reorganised company, which he referred to as Chase 1990, though with a new chairman and board.

Jacques Calvet: executive XM car ahead of target

Citroën sees record sales of FFr66bn

By William Dawkins in Paris

CITROEN, part of PSA, the leading French car group, expects sales to rise by 16.5 per cent to a record FFr66.1bn ($11.15bn) this year.

However, Mr Jacques Calvet, president of PSA, said the seven-week long autumn strike at Peugeot, the group's other main division, would take FFr3bn out of PSA's total annual turnover, which reached FFr138bn last year.

He gave no profits forecasts for Citroën, which does not publish separate accounts, but revealed that sales of the XM, the company's new executive model, were running slightly ahead of target. The XM, launched in May, is Citroën's part of PSA's ambitious two-pronged attack on the executive car market, with the Peugeot 605, launched in September.

Citroën had received orders for 23,000 XMs in France by the end of November, and looked on track to exceed by a small margin the end-of-year target of 25,000.

Meanwhile, 6,700 foreign orders for XMs had been received over the same period, more than the end of year target of 6,600, Mr Calvet told Citrën's annual press conference.

"In 1990 we will concentrate on deepening the XM's presence both in and outside Europe. . . We want to be the first in Europe in 1992-93 and to achieve that both companies in the group will do what is necessary," he said.

Hungary sells travel stake to West

By Judy Dempsey in Budapest

IBUSZ, one of Hungary's largest travel agents, has been partially sold to an international consortium, headed by Girozentrale Bank der Oesterrichischen Sparkassen, Austria's second largest bank.

The deal, which has proved controversial in Hungary, involves the sale of 40 per cent of Ibusz. It means the company will become one of the first East European companies to be listed on a Western stock exchange, possibly as early as next year. It will also be listed on Budapest's fledgling stock exchange.

Ibusz, which is desperately trying to stave off mounting competition from Cooptourist, a travel company which started up over five years ago and which has since eroded Ibusz's long monopoly over the tourism sector, will increase its share capital from its current 800m forints to 1.2bn forints ($19m).

The much-needed capital will be earmarked for improving the company's services.

The Hungarian authorities will welcome the capital. They are saddled with a budget deficit which must be reduced by 21bn forints to 10bn forints for 1990, and face a hard-currency debt of $20bn, one of the highest per capita in Eastern Europe.

The company intends to offer 30 per cent of the registered shares to western investors, while the remaining 10 per cent will be offered to Hungarians, of which half will be kept aside for Ibusz's 2,000 employees.

On the face of it, the choice of Ibusz is purely economic. Mrs Erika Szemenkar, the well-respected manager of Ibusz, said on Friday, that she expected the group to record a turnover of more than 1bn forints, thanks to the growing number of tourists coming to Hungary.

Mr Imre Gellai, the Hungarian deputy trade minister pointed out that Ibusz was one of the country's best-run companies and had therefore been chosen because of its high profile in the tourist sector.

Only a year ago, Ibusz faced substantial problems following the introduction of a company tax and turnover tax system which left it without much-needed capital to invest and upgrade its services.

At the time, there was sharp criticism from within Ibusz that good companies were being unfairly penalised by the authorities for running a tight ship.

But the sale has also a political dimension to it, and one which is likely to be voiced throughout Eastern Europe, as the economic reforms take root.

The fear among some Hungarians, and this was aired during a meeting of the old conservative Hungarian Socialist Workers' (communist) party congress, which was held in Budapest at the weekend, is that only the best Hungarian companies will be sold off to the West. "Our best assets are walking out of the country," is a complaint heard often from those anxious that the country will be left with inefficient and uncompetitive industries.

Cross-border takeovers surge

By Nikki Tait

CROSS-BORDER acquisition activity in Europe surged to record levels in the third quarter of 1989, according to figures published by Translink's European Deal Review.

Translink calculates that the total value of deals rose to Ecu18.1bn ($15.4bn), almost double the Ecu10.2bn-worth of deals seen in the second quarter and over three times the first-quarter figure of Ecu5.14bn.

The rise in the number of deals has been slightly less dramatic – up from 235 in the first quarter and 341 in the second, to 377 in the third.

American companies were the most significant acquirers in the third quarter, spending some Ecu6.5bn and accounting for more than one-third of the European deal flow.

French companies, the most active spenders in the first half of the year, forked out Ecu3.72bn in the third quarter.

West Germany featured as the third-most-significant acquiring nation in the July-September period, although this was partly thanks to the completion of the joint bid by Britain's General Electric Company and West Germany's Siemens for Plessey. Nevertheless, West German companies were involved in a total of 42 deals during the three months, and the review suggests that this is indicative of "rising German interest in European acquisitions."

British companies, meanwhile, remained the favourite target for cross-border acquisition.

More than Ecu9.7bn was spent in the UK, over half the total by value. West Germany, in second place, attracted only Ecu2.98bn.

Thyssen leaps 21% to DM825m

By Our Financial Staff

THYSSEN, the diversified West German heavy-industrial group, has raised its net profits by 21 per cent to DM825m ($480m) for 1988-1989, from DM680m, in what the company described as its best year since it was *founded*.

The group also said the current year was going well, with most of its companies having a high level of orders in hand. Growth in sales and profits would therefore continue.

In the year under review group sales grew 17 per cent to DM34.2bn from DM29.2bn while pre-tax profits rose to DM1.72bn from DM1.16bn.

Thyssen's biggest sector, Thyssen Handelsunion, the trading and services division, raised sales to DM11.8bn from DM12.8bn. The group's second biggest division, Thyssen Stahl, the steel unit, increased sales by 17 per cent to DM11.8bn. Sales of the speciality steel division rose 30 per cent to DM5.1bn.

Thyssen said it planned to continue boosting growth by investing in its existing businesses and related areas. It would also continue to look at expanding through acquisitions, though it was planning no takeovers at present.

Non-chemist wins top BASF job

By Haig Simonian in Frankfurt

BASF, the leading West German chemicals group, has broken sharply with tradition by appointing Mr Jürgen Strube, a non-chemist, to succeed Mr Hans Albers, its long-standing chief executive, who retires next summer.

Unlike his predecessors at the top of the company, which had sales last year of DM43bn ($25bn), Mr Strube, 50, is a lawyer rather than a chemist. The move follows the precedent set by Bayer, the big chemicals group, which in 1984 chose Mr Hermann Josef Strenger, a non-chemist as its chief executive.

With a *reputation as a good* communicator, Mr Strube worked for some time as head of BASF's important US operations, *which now account for a fifth of total sales*, before returning to Germany, where he is responsible for the foam plastics, polyolefins and PVC divisions, as well as information systems. Duties outside Germany include overall responsibility for the Brazilian and Latin American operating units.

Mr Strube is seen as more outward-going and less taciturn than Mr Albers, a chemicals industry veteran. This may have been a factor *influencing BASF's* supervisory board in its decision.

Like Hoechst and Bayer, BASF's two big domestic rivals, the group is facing the probable challenge of lower volumes in its mainstream businesses, and the certainty of greater pressure than ever before on environmental issues, especially at home. The choice of Mr Strube may isolate Mr Ronaldo Schmitz, 51, BASF's highly-regarded finance director, who was another potential successor to Mr Albers. The company chose Mr Wolfgang Jentzsch, 57, a mainline chemist, and another contender for Mr Albers's position, as deputy chief executive.

Mack Trucks fails to comply with covenants

By Roderick Oram

MACK TRUCKS, the US truck maker 45 per cent owned by Renault of France, said it is failing to comply with some covenants on $309m of bank loans by its financial subsidiary.

The news, indicating a further deepening of Mack's problems, sent its stock skidding down $1¾ to $6⅛ on Friday. Only a month ago, the market was rattled when the company reported an unexpectedly large third-quarter loss and said its outlook was bleak.

Hit by a sharp contraction of the US market, Mack's production and sales of heavy-duty trucks fell by 37 and 34 per cent respectively during the third quarter. Its sales of medium-duty trucks dropped 24 per cent. It ran up a third-quarter loss of $87.5m on sales of $367.4m against a net profit of $2.7m on $501m a year earlier.

The company said it had failed to keep current liabilities to no more than 1.6 times current tangible net worth. The company is seeking waivers.

Fiat pays L15bn for Innocenti

By John Wyles in Rome

FIAT AUTO is to pay L15.3bn ($12m) for its controlling share of the distribution company which markets Innocenti motor cars. A price has yet to be fixed for its 49 per cent holding in the production company responsible for the Maserati.

The purchase price for 51 per cent of Innocenti Marketing was revealed at the end of last week by Mr Alejandro De Tomaso who has controlled Innocenti-Maserati since the mid-1970s. He forecast a loss of between L5bn and L8bn this year on sales of L342bn.

Kodak reshape to cost $500m this year

By Roderick Oram in New York

EASTMAN KODAK expects previously-announced restructuring actions will reduce its net profits by about $273m in the fourth quarter and about $500m for the full year.

The photographic and diversified industrial group said in late summer that it would embark on its fourth round of cost cutting and restructuring this decade. It had not given a figure for the charge against earnings. Of the full-year charge, $227m was taken in the second quarter. The company said the full-year charges would cut its operating income by about $850m, substantially more than Wall Street analysts had expected.

BRIEFS...

SHEPHERD has won a £3m design and build contract for the Exchange Quay offices development at Salford Quays in Manchester's docklands for Charter Developments. It comprises about 240,000 sq ft of offices and a multi-storey car park for 1,000 cars. Some 200,000 sq ft of offices will be in two 10-storey buildings and two 6-storey buildings, with the balance in eight smaller buildings known as "The Office Village". Work has started with completion in 22 months.

★★★

J.A. ELLIOTT has won contracts worth a total of £27m. Two are hospital projects, Queen Mary's House Hospital in Hampstead, a new building scheme (£7.1m); and a housing development on the site of The Prince of Wales Hospital in N15 where Metropolitan Housing, along with a consortium, have commissioned a design-and-build project of £6.9m. Other schemes include a retail development for Tesco at Pitsea, Southend, for £3.5m; a Neighbourhood Centre for the LDDC in Docklands for £4.2m; an office development at Borehamwood (£3m); and at Manor Royal Crawley (£2.2m).

★★★

The FEE GROUP, Halifax, recently acquired by the A.F. Budge Group of Retford, has won contracts worth over £20m. Orders include a £10m production unit, offices and car parking facilities for Hugo House off Rook Lane in Bradford.

★★★

Contracts worth £6.1m won by the construction division of EVE GROUP include projects for CEGB, ILEA and the London Borough of Sutton. For the national grid division of CEGB, Eve is strengthening oil bund walls at sites in North London, Hertfordshire and Buckinghamshire. The ILEA contract is for cladding four inner London schools. The Sutton project, at £3.9m the largest of the three, is for a theatre, shops, workshop, car park, and extensive landscaping at Carshalton Hall.

CONSTRUCTION CONTRACTS

Flexible office design concept

Smaller companies displaced by the mega City of London developments of recent years, or now unable to find suitably-modest premises in-and-around the "Square Mile" will be heartened by a departure from the pattern about to take shape in E1.

Stockworth Developments is redressing the balance with a development at The Highway, for which M.J. GLEESON GROUP has been awarded a £10.34m design-and-build contract.

With a property market anxious about possible office-space over-capacity - more and more City institutions shed staff, Stockworth opted for a flexible concept.

The needs of one user requiring about 105,000 sq ft of space, or up to 33 self-contained, independently-serviced office, showroom or retail units - varying in size from 2,000 to 12,000 sq ft - can be accommodated.

Sandwiched between The Highway and Pennington Street - close to Tower Bridge - this development comprises two six-storey office buildings linked at first-floor level by a central paved terrace, and with a split-level two-storey entrance hall fronting The Highway.

The brickwork-clad frame will be of reinforced concrete, as will the fine-finished circular feature columns which Gleeson is to construct, and the building will have a butterfly roof of structured steel. Stair-cores are to have glass-block walling, and the building will be serviced by three passenger lifts. The lower ground floor will provide covered parking spaces for 42 cars.

But that is where any similarity to adjacent developments ends. For with smaller tenants in mind, the whole concept is geared towards providing a building which has relatively low energy consumption and other running costs.

Gleeson is using the services of Rick Mather Architects and structural engineers Jenkins & Potter for the scheme. By adopting a shallow floor plan and no drop ceilings, an extra 2 ft per floor - and an extra floor in each block - has been gained.

This approach has simplified the use of energy-efficient cross-ventilation rather than air-conditioning. Another important design detail is that natural light permeates right through the building.

All public areas are to be fitted-out by Gleeson. Lettable units will have fully-accessible raised floors, self-contained modular WC facilities, electric heating, and plastered walls and ceilings.

Compton & Edrich stands at Lord's

JOHN LELLIOTT GROUP has been awarded contracts worth about £42m.

These include a £4.5m project awarded to John Lelliott (Contracts) for the Compton & Edrich stands at Lord's for The Marylebone Cricket Club. Other orders won by this division include the £3.4m refurbishment of the Holborn Bars headquarters for Prudential portfolio Managers; and refurbishment and reinstatement costing £3.3m at damaged offices at Carlton House Terrace, London, for the Industrial Society.

The management division has a £15m contract for the construction of luxury apartments at St John's Wood for Rosehaugh Copartnership developments. Four business units in *Pilgrimage Street*, London, at £1.6m are being built for Gallery Estates; a £1.6m contract from GRF Tompkins Trustees of 1977 is for a six-storey office development at St John's Lane, London; and a £2m conversion of laboratories and offices is being carried out for Glaxo at Greenford.

The group's design and build company has two projects worth £3.2m. One, at £1.7m is a four-storey, 2,000 sq metre extension to the Town Hall and assembly rooms for Watford *Borough* Council; and the other is a £1.53m project for a four-storey office development at Chelmsford for Brookglade Properties.

Waitrose has awarded John Lelliott (Eastern) a design and build contract to construct a 28,500 sq ft supermarket in St Ives, Cambridgeshire.

Tunnel orders for Donelon

DONELON TYSON, formed by the merger of J.F. Donelon & Co and Tysons, has won orders worth over £30m.

J.F. Donelon & Co, tunnelling division, has two contracts totalling £10m. For Bristol City council the company is building 3km of 3.05 metre diameter tunnel in rock between 12 and 75 metres below ground level, costing £9m. A £1m sewer replacement is for the Metropolitan Borough of St Helens, Lanacashire.

The civil engineering division has two orders. One at £3.25m for a trunk relief sewer *for North West Water, and the* second, at £500,000, a sewer replacement, again for the Metropolitan Borough of St Helens.

Tysons Contractors has orders totalling £11.5m, of which the largest is a £3.6m design and build housing project on the former Barker & Dobson factory site in Liverpool, for a joint venture by two housing associations.

At the Maritime Museum on the Albert Dock, a gatehouse development has started, funded by the Merseyside Development Corporation, together with a £3m contract at the New Winter Gardens project in Southport.

In the City of London, *Tysons is main contractor for a* £1.4m six-storey office block in Gresham Street, opposite the Mansion House.

Europe's deepest escalator

What is believed to be Western Europe's deepest escalator shaft, extending 30 metres below ground, is being built by BALFOUR BEATTY as part of the Angel Underground Station redevelopment, London. Triple escalators will run from a new ticket hall to a mid-level concourse, and then to the platforms via a shorter escalator system. The building work is valued at £4.7m. The company also has a £3m order from the Crossbridge Partnership for three offices and production buildings at Banbury business park.

LEGAL COLUMN

Lawyers discover what clients mean by quality of service

By Robert Rice, Legal Correspondent

IF YOU were to ask the top 50 law firms what separates them from the competition, there is a better-than-even chance that most would mention their quality of the service.

If you were to ask the same firms to define what they mean by quality, however, the answers would be vary considerably. Many would list technical excellence as the crucial factor in the delivery of quality. Others would talk about "adding value to clients," "building commitment" and "meeting clients' needs."

A *quality service is* something to which all law firms aspire. Most believe it is a main strength of their business.

To many, it is also self-evident that they already provide it. Clients expect the very best, they reason, and if they did not get it they would soon move their business to another firm.

The difficulty with that argument is that it is looking at the question of what constitutes a quality service from the lawyer's point of view rather than the client's. Quality frequently *means different things* to different clients.

To many it is self-evident that they provide a quality service. They reason that their clients expect the very best and if they did not get it, they would move their business to another firm

Quality service and how to provide it is the subject of the latest in the series of papers on strategic issues for law firms produced by the Spicers Consulting Group, the consultant arm of Spicer and Oppenheim International.

According to Spicers, quality is commonly viewed as a secret of success by law firms, but there are also many concerns and contradictions about service quality in the legal marketplace.

It quotes one chief executive who spoke in glowing terms about the high quality of service his solicitors provided – because they always gave him an answer to his problems the next day. Yet another client of the same solicitors expressed concern about the quality of their service precisely because they responded *so quickly*. The client was so worried that his needs were not getting the serious consideration they deserved that he started to take his business to another firm.

Another businessman told Spicers he was very impressed because his solicitors always fielded four partners and an *equal number of associates.*

There was also a client, however, who had stopped using a firm because they always turned up in threes and fours. He was not worried about the cost – it was simply that he never felt sure who was in charge of his case, and the length of meetings seemed to him to multiply in direct proportion to the number of partners attending.

When defining quality, lawyers have learnt over recent years to talk about speed of response, prompt return of *telephone calls and the* need to understand the client's business. Deep down, however, most lawyers – indeed, most professionals – still believe technical expertise is what really counts.

The only snag with that belief is that many clients have difficulty in differentiating between average and high technical expertise. Spicers discovered that most clients tend to assume a law firm is technically competent until they have evidence to the contrary.

The only clients who felt they could differentiate between firms on technical grounds had direct experience of bad quality or employed their own lawyers capable of making a critical assessment of the firm's work.

As Spicers points out, technical ability is only one facet of the service a law firm provides – and only one of many that might be required for a truly high-quality service. Failure to understand and accept that a quality service must be defined from a client's perception is one of the biggest barriers to a law firm that wants to compete on quality.

Firms must also recognise that each client will have his or her own perception of what constitutes quality. Firms competing on quality therefore must be prepared to tailor their service delivery to the needs of their main clients.

Spicers' discussions with clients threw up a *long list* of items that are perceived as contributing to quality service. They include responsiveness, care and concern, understanding of the client's business, reliability, commitment, communication, creativity, innovation, effectiveness, judgment and consistency.

The same factors cropped up *again and again, demonstrating* a high degree of agreement in the marketplace about what constitutes a quality service. The big divergence of opinion, however, comes in deciding the relative importance of each item. How, then, do law firms go about building a high-quality service?

Clients threw up a long list of items they perceived as contributing to a quality service. They included care and concern, reliability, communication, consistency and understanding

The firm must first set about finding out its target clients' perceptions of quality. Obtaining those views, however, is often easier said than done. Firms that gather such information of their own behalf may not get the truth, Spicers suggests.

Similarly, standard market research will rarely reveal the depth of feeling held by clients on many issues and may lead to superficial conclusions.

The best solution, according to Spicers, is to get a third party to conduct deep research from a small cross-section of old, existing and potential clients. There may be considerable resistance within law firms, however, to that type of client research – particularly among those who believe they already provide a high-quality service.

They fear that carrying out research among clients or potential clients may be interpreted as a sign of weakness, an indication that the firm has some doubts of its own ability, or as an admission that there is room for improvement. All three might have an unsettling effect on existing clients.

A partial solution, particularly with new clients, may lie in conducting detailed interviews to establish their priorities at the start of the relationship. Such interviews can then be followed by regular meetings to ensure their needs are being met.

Once the information is gathered, the insights that it provides will clarify for the law firm the capabilities it must develop to build a high-quality service for that client.

Commitment from all partners to changes in the values and beliefs of the firm will be essential, and some re-examination of the way the firm organises recruitment, training and the management of its staff will certainly be required.

As Spicers points out, a high-quality service is an elusive concept. However, it is one *of the few authentic routes* to competitive advantages in today's market for legal services. Firms that consistently deliver quality will have an enormous competitive edge.

There are, however, two large hurdles for firms that want to address the quality of their service. The first is the attitude of the partners to quality – many will take it as a personal affront to suggest that they are not already providing a service of the highest quality.

Spicers concedes that in some cases they are. However, many others are still looking at quality from their own technical viewpoint rather than from that of the client.

The issue therefore requires sensitive handling, particularly in the initial stages. The other matter is growth. High-growth firms – most these days – run e risk of diluting rather than building quality service. That is particularly true of firms that merge.

Given that the most critical ingredient for a firm that offers high-quality service is commitment to the values underpinning quality, large numbers of new people will magnify the task of developing a cohesive view about quality and building the necessary commitment.

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Fundinvest, 11, Devonshire Square, E., 12.00
BOARD MEETINGS-
Finals;
Acatos & Hutcheson
Appletree Hldgs.
Berisford Int.
British Sugar
Colorgen
Crown Comms
Doctus
Interims;
Bromsgrove Inds.
F & C Smaller Co's
Peel Hldgs.
Southend Property Hldgs.
DIVIDEND & INTEREST PAYMENTS-
Bank Leumi $50.10
Barlows 0.825p
East Rand Gold & Uranium 7.75cts
Ford Motor 3.75cts
Instituto De Credito Oficial 5⅝pc
Land Securities 4.75p
Leeds Permanent Bldg. Soc. £351.38
Prestwick Hldgs. 1p
RTZ Corp. 5p
Do. Ord 10p (Br) 5p
Smart (J.) 4.65p

TOMORROW
COMPANY MEETINGS-
Drayton Consolidated Trust, 11, Devonshire Square, 10.00
F. & C. Eurotrust, 1, Laurence Pountney Hill, E., 2.15
Govett Strategic Investments, Shackleton House, 4, Battle Bridge Lane, S.E., 10.30
North Sea Assets, Caledonian Hill, Princes Street, Edinburgh, 10.30
BOARD MEETINGS-
Finals;
Greenall Whitley
NFC
Interims;
Braithwaite
Broadwell Land
Faupel Trading
Harmony Leisure
NMC
Tinsley Robor
West Tst.
Westpool Inv.
DIVIDEND & INTEREST PAYMENTS-
Ambrose Inv. Tst. 5.28p
Bristol & West Bldg. Soc. $351.53
EAS Finance $238.28
Eastern Produce (Hldgs) 2.5p
G.R. (Hldgs) 1.75p
Lowland Inv. 4.5p
Panama (Rep. of) $517.86
Stratagem 3.5p

WEDNESDAY DECEMBER 20
COMPANY MEETINGS-
Blenheim Exhibitions Group, QE2 Centre, Broad Sanctuary S.W., 12.00
Clyde Blowers, Livingstone Street, Clydebank, 11.30
Ensign Trust, Merchant Navy Inv. Mgt., 30, Finsbury Circus, E., 12.00
Ferranti, Millbank Tower, Millbank, S.W., 11.00
Rosehaugh, Claridges, Brook Street, W., 9.15
BOARD MEETINGS-
Finals;
Electronic Data Processing
Yorkshire Radio
Interims;
Batleys
Hughes Food
DIVIDEND & INTEREST PAYMENTS-
Enron Corp. 62cts
Essex Water Co. 3½pc
Do. 5% Deb. 2½pc
Do. 7¼% Deb. 3⅝pc
Do. 8% Deb. 4pc
Do. 10% Deb. 5pc
Do. 10½% Deb. 5¼pc
Do. 3½% Deb. 1¾pc
Do. 4% Perp. Deb. Stk. 2pc
F. & C. *Eurotrust* 2.16p
Gieves Grp. 1.5p
Korea Exchange Bk. £177.64
M. & G. American Recovery Fund 1.56p
Marine Midland Banks Inc. $290.08
Mount Charlotte Invs. 4.77cts
Rechem Environmental Services 3.5p
Riggs *Ntl. Corp.* $230.86
Standard Chartered £176.86
Stanhope Props. 0.1p

THURSDAY DECEMBER 21
COMPANY MEETINGS-
Continental Assets Trust, 1, Charlotte Square, Edinburgh, 10.00
H.T.V., *Crest Hotel, Hanbrook, Bristol,* 12.30
Moran Hldgs., *Sir John Lyon House,* High Timber Street, E.C., 12.00
Tubular Exhibition Group, Floyd Ewin House, Marshgate Lane, E., 12.00
BOARD MEETINGS-
Finals;
Bankers Inv. Tst.
Interims;
Electric & Gen. Inv.
Northumbrian Fine Foods
Total Systems
DIVIDEND & INTEREST PAYMENTS-
Anglo Grp. 1.65p
Bank fur Arbeit und Wirtschaft $466.09
Citicorp $225.95
Great Universal Stores 21.5p
Hercules Inc. 56cts
Italy (Rep. Of.) $476.56
Jersey Phoenix Tst. 1p
Lone Star Inds. 47.5cts
Marine Midland Bank. $227.5
Midland Bank $482.43
Peters (Michael) Grp. 2p
Riverview Rubber Ests. 10p

FRIDAY DECEMBER 22
BOARD MEETINGS-
Finals;
Kelsey Inds.
Interims;
Forminster
Marston Thompson & Evershed
DIVIDEND & INTEREST PAYMENTS-
American Cyanamid 33.75cts
American Intl. 12cts
Black & Decker 10cts
CSR 16cts
Drayton Cons. 11.25p
F.R. Grp. 2.1p
Gresham House 3p
Hanover Druce 1.5p
Investors Capital 4.4p
Overseas Inv. Tst. 1.45p
TSB Gilt Fund 1p
The Rack 0.465p

Trade fairs and exhibitions: UK

December 20-24
Late Late Christmas Shopping Show (01-378 7131)
Olympia

January 4-14
London International Boat Show (0932 854511)
Earls Court

January 6-10
International Lightshow Exhibition (0588 4658)
Olympia

January 10-12
Supercomputing Exhibition and Conference - SUPERCOMPUTING EUROPE (01-948 5166)
Olympia

January 12-14
British Horse and Rider Show (01-834 1717)
Wembley Centre

January 13-18
International Toy Fair (01-226 6653)
Harrogate

January 23-25
Enterprise Exhibition (01-642 7688)
Barbican, London

January 27-31
British International Toy and Hobby Fair (01-701 7127)
Earls Court

January 30-February 1
Construction Industry Computer Exhibition (01-251 5885)
Barbican

February 4-8
International Spring fair (01-855 9201)
NEC, Birmingham

February 7-9
Undersea Defence Technology Conference and Exhibition (0892 44027)
Novotel, London

February 7-11
Scottish Boat, Caravan, Camping and Leisure Show (041-221 1769)
Exhb and Conf Centre, Glasgow

February 14-16
The Property Business + Enterprise 3 (01-834 1717)
Barbican, London

Overseas exhibitions

Current
January 8-11
International Hotel, Restaurant and Catering Industries Trade Fair - HORECAVA (01-495 7977)
Amsterdam

January 10-13
International Home and Household Textiles Trade Fair - HEIMTEXTIL (01-734 0543)
Frankfurt

January 12-17
Carpets, Rugs, Decorative Goods and Home Accessories Exhibition; Jewellery, Gold and Silverware, Clocks, Watches and Gifts Exhibition; and 25th International Lighting Exhibition - LUMINAIRE (01-225 5566)
Paris

February 9-18
International Boat Show (01-486 1951)
Helsinki

Business and management conferences

January 9
The Institute of Economic Affairs: The state of the economy (01-799 3745)
QE2 Conf Centre, London

January 10
Textile Institute: Textile interiors (061 834 8457)
Heimtextil Exhibition, Frankfurt

January 11
HS Conf: The audit secretary today (01-935 2382)
Cafe Royal, London

January 16-17
Spectra: Electronic marketing 1990 *in retailing and finance* (0734 320177)
Regent Crest Hotel, London

January 17
Gouldens: Cross border mergers and acquisitions seminar (01-583 7777)
Mayfair Inter-Continental Hotel

January 22
Profex: The United Kingdom property insolvency conference (01-950 0400)
The London Marriott Hotel

January 22-23
Financial Times: Creating a Euro-workforce in the 90s (01-925 2323)
Hotel Inter-Continental, London

IBC: Global emerging stock markets (01-637 4383)
Portman Inter-Continental Hotel, London

January 23
Joint CB/British Gas Conf: Tunisia - *Future prospects for* the UK (01-379 7400)
CBI Centre Point, London

January 25
Hawksmere: 1992 - Opportunities and pitfalls for the European insurance industry (01-824 8357)
Scandic Crown Hotel, Brussels

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

PARLIAMENTARY

Today

Commons: Broadcasting Bill, second reading.

Motion on EC documents on package travel.

Lords: Debate on EC report on the Delors Committee report.

Motion on the Supply of Beer (Tied Estate) Order 1989.

Select committee: Public Accounts: subject, NHS financial management. Witness: Mr D. Nichol, chief executive of the NHS management board. (Room 16, 4.30 p.m.)

Tomorrow

Commons: Estimates Day.

Debate on accommodation and repatriation of Vietnamese boat people.

Motion on code of practice for trade union ballots for industrial action.

Lords: Courts and Legal Services Bill, second reading.

Select committee: Parliamentary Commissioner for Administration: subject, jurisdiction in relation to the Lord Chancellor's Department. Witness: Mr T. Legg, permanent secretary, Lord Chancellor's Department. (Room 19, 10.45 a.m.)

Wednesday

Commons: Motion on Christmas adjournment.

Proceedings on Consolidated Fund Bill.

Lords: Debate on "The case for urgent international action to protect the environment."

Select committees: Trade and Industry: subject, company investigations. Witness: Lord Alexander of Weedon, National Westminster Bank chairman. (Room 15, 10.30 a.m.)

Parliamentary Commissioner for Administration: subject, report of the Health Service Commissioner for 1989. Witnesses: Greater *Glasgow* Health Board, Tayside Health Board, Liverpool Health Authority. (Room 19, 10.45 a.m.)

Defence: subject, low flying. Witnesses: All-Party Group on Low Flying. (Room 8, 10.50 a.m.)

Energy: subject, British Nnclear Fuels, report and accounts 1988/89. Witnesses: Mr Christopher Harding, chairman, and officers.

Thursday

Commons: Adjournment debates.

Lords: Pakistan Bill, second reading.

Motion on Local Government Act 1988 (Competition in Sports and Leisure Facilities Order 1989.)

Motion on Census Order 1989.

PUBLIC NOTICES

Office of Fair Trading

COMPETITION ACT 1980
NOTICE UNDER SECTION 3(2)(a)

WALES TOURIST BOARD

It appears to the Director General of Fair Trading that the Wales Tourist Board has been or is pursuing a course of conduct which may amount to an anti-competitive practice. Therefore he hereby gives notice that he proposes to carry out an investigation under section 3 of the Competition Act 1980 with a view to establishing whether the Wales Tourist Board has been or is pursuing a course of conduct which does amount to an anti-competitive practice.

The matters to be investigated are:

(1) the conduct of the Wales Tourist Board in limiting or attempting to limit the publication or dissemination of advertisements placed or sought to be placed by letting agencies providing services to suppliers of holiday accommodation in Wales and to persons requiring such accommodation; and

(2) whether such conduct has or is intended to have or is likely to have the effect of restricting, distorting or preventing competition in connection with the supply of services provided by letting agencies to suppliers of holiday accomodation in Wales or to persons requiring such accommodation.

If you have any information which you consider would help the Director General, please write to:

Office of Fair Trading,
Branch CP1A,
Chancery House,
53 Chancery Lane,
London WC2A 1SP.

Your letter should arrive as soon as possible if it is to be taken into account in the enquiry.

FINANCIAL TIMES SURVEY

Glasnost has been good for the Finns. For the first time in decades, Helsinki is free to pursue its self-interest without worrying about how its giant neighbour Moscow will react. Increasingly, this path is leading it into the arms of western Europe. **Robert Taylor** reports

A market area in Helsinki, the Finnish capital. Finland finds itself in the position of being master of its own affairs, free from the interference of its powerful neighbour the Soviet Union

FINLAND

Westward bound

FINLAND finds itself this winter in an enviable position. For the first time since before the Second World War it looks free to pursue its economic self-interest in the markets of western Europe without any need to worry about whether this will in some way compromise its legitimate political concern to safeguard friendly relations with its giant neighbour the Soviet Union.

Over many years Finnish governments have had to perform a sensitive balancing act to preserve their country's identity as a Nordic democracy with a prosperous market economy but also take care to act in accordance with its geopolitical position on the edge of the Soviet empire.

Now thanks to President Mikhail Gorbachev's benign influence this intricate strategy has become much easier to carry out. On his three day visit to Finland in October the Soviet leader assured his delighted hosts that Moscow recognised the country's neutrality without equivocation. The slur of Finlandisation that unfairly stigmatised Finland as a quasi-satellite of the Soviet Union in the eyes of many in the West over the past 20 years has been lain to rest.

"The Gorbachev declaration has removed the element of ambiguity from Finnish-Soviet relations," declares Mr Max Jakobson, Finland's distinguished former diplomat. Certainly the ambivalence towards Finland of the Brezhnev era is over. However, what delighted the Finns even more this autumn was the Soviet leader's relaxed attitude about whatever their future relations might be with the European Community. He made it quite plain that it was for Finland itself and not anybody else to decide the nature of the country's evolving ties with the EC.

In fact, there has never been any question of Finland seeking to join the EC as a full member. On this point the Soviet attitude is irrelevant to what has always come down to a purely Finnish assessment of its own national self-interest. The Finnish government reiterated its lack of interest in such a step in its policy declaration on the EC which it presented to Parliament last month, when it asserted that the country's neutrality in defence and foreign policy rules out any Finnish involvement in political integration with the countries of western Europe.

But on the other hand, to the surprise of many outsiders, Finland seems eager – through joint action in the European Free Trade Association – to *build up the European Economic Space* through negotiations with the EC next year, even though this will inevitably involve a substantial loss of sovereignty for Finland during the 1990s as the EES – once an ambiguous rhetorical phrase when devised five years ago – becomes a reality covering at least 18 countries of Europe.

Indeed, Finnish policy-makers are keen nowadays to insist that their country will not only carry through the necessary internal reforms to open up Finland to the four freedoms enshrined in the EC's move to a dynamic internal market by the end of 1992 but also implement the thousands of rules and regulations that already apply inside the EC among its member states.

Working closely with Sweden in particular over recent months, the Finnish government has committed itself to a wide-ranging strategy that will eventually bring the country much closer to the economic realities of western Europe. In its enthusiasm for the EES it *can rely on the full backing of* Finland's employers and main trade union organisations. This will not mean the creation of a customs union but much more of an extended free trade area which could eventually bring the Finnish markka, among the other Efta currencies, into the exchange rate mechanism of the European Monetary System.

Of course, there are limits to just how far Finland is prepared to move in a Brussels direction. Most Finns remain determined, for example, to safeguard the ownership of their forests from foreign hands. As nearly half the families in Finland own some part of their country's richest natural heritage, the emotional force of this question is understandable. And Finnish policy-makers are relieved to see agriculture excluded from the EES. Finland may be willing to open up much of its economy to foreign-owned companies and banks but the strength of nationalist feelings in the country must never be underestimated.

Finland's increasing dependence on EC markets – last year 44.2 per cent of its exports went there while 43.5 per cent *of its imports came from* EC countries – may force it to make the best deal it can with the EC. Moreover at least three quarters of all Finnish overseas business is already conducted inside the putative EES.

Yet the EC-Efta process of integration into an EES cannot be pushed so far as to involve the sacrifice of positions thought vital for Finland's own perceived national interest. In a crisis Finland realises it could rely on nobody except itself. This is the painful lesson the country learned 50 years ago last month when it was attacked by the Soviet Union.

It has ensured a strong note of realism in the country's foreign policy, what Mr Alpo Rusi, counsellor at the Ministry of Foreign Affairs, calls the "adoption of a doctrine under which independence is safeguarded by acknowledging the realities but not submitting to them."

Finland is no beacon of hope for the world's oppressed. Only 0.4 per cent of its residents are foreign born. No Soviet citizen has ever been welcomed as a refugee. Finland has never been encouraged as an escape route for Soviet dissidents. Immigration controls remain tight and the Finnish authorities look askance at the idea of making it easier for those who want political asylum to come to their country.

Finland may have a shortage of skilled labour at the moment but its impenetrable language, extreme climate in winter and geographical isolation would make it look an unattractive haven anyway for even the most desperate foreigners.

The Finnish government lost no time in rejecting Mr Gorbachev's offer to waive visa requirements between Finland and the Soviet Union. No doubt, most Finns would hate the idea of thousands of Russians descending on their affluent, settled way of life even if it might only involve a mammoth shopping expedition to Helsinki.

In fact, good relations with Moscow remain a necessary fact of life for Finland, as the Gorbachev autumn visit underlined. On his trip to Helsinki the Soviet leader placed a special emphasis on the long-term value of the 1948 treaty of Friendship, Co-operation and Mutual Assistance signed between the two countries at the height of triumphalist Stalinism. Contrary to western opinion, this was never a vassal relationship but as Mr Gorbachev revealed it did lead on to the creation of what he called "a broad-based and varied network of ties" between the two countries. And Finnish politicians were often keen to maintain close relations with the Soviet regime that went far beyond the legendary hunting trips that President Urho Kekkonen used to make to the Soviet Union.

During the time of high energy prices Soviet imports to Finland, chiefly of crude oil and gas, made up as much as 25 per cent of total Finnish trade but the proportion fell back in the 1980s to less than 15 per cent. Soviet-Finnish trade is still primarily administered through a centralised bilateral ruble-based clearing house system that dates back to 1947.

It still looks very much like a relationship between an advanced country (Finland) and a developing nation (Soviet Union), for nearly three quarters of Soviet exports to Finland consist of energy and raw materials, while the Finns in return send mainly finished industrial products.

Many policy-makers in Helsinki question whether the centralised system will last beyond the next five years, because it conflicts with the more flexible ways of doing business introduced through perestroika. There are now as many as 107 joint ventures (nearly half with Estonia) between Finland and the Soviet Union primarily in the construction and service sectors that lie outside the traditional system.

Increasingly Finnish companies are interested in schemes with the Soviet Union that involve commercial transactions carried out in convertible currencies. During the Gorbachev visit there was a good deal of talk about both countries working together in the Kola peninsula on large-scale industrial and environmental projects as well as exploring for gas reserves in the Barents sea.

The Finnish government is understandably cautious about prospects in the Soviet Union in the 1990s. After all, it has to live with whoever rules from the Kremlin. But the apparent end of the Cold War with the revolutionary changes this autumn in eastern Europe are encouraging Finland to believe that the country's unique balance between East and West will strengthen its mediatory role as a force for stability in the European Security and Co-operation Process (CSCE) that was launched in 1970.

No wonder that for all their internal economic and political problems this autumn the Finns are in an optimistic mood. It is not only the peoples of eastern Europe who need to thank Mr Gorbachev for what is happening to them.

CONTENTS

FINLAND 2

Robert Taylor on the resurgent Centre Party's challenge to the Government

Grand coalition's mid-term blues

MR HARRI Holkeri's Conservative-Social Democratic grand coalition government is going through a lean spell at the moment after two and a half years in office. But with 130 seats in the 200 strong parliament it looks unlikely to fall from power before the next general election scheduled for March 1991.

Indeed, in spite of some rumblings on the left the present administration has held together remarkably well. It is the first time in 29 years that the National Coalition party – Finland's conservatives – and the Social Democrats have run in harness in government and the experience has turned out to be a good deal less traumatic than either side perhaps feared at the beginning.

Bnt then the traditional right-left spectrum appears to make less and less sense for an understanding of modern Finnish politics. In some ways the Netional Coalition and the Social Democrats have more to common with each other than the rhetoric might suppose.

Both have their electoral strength in the growth areas in the south of the country and in the larger towns, where they have often allied to the 1980s running local government. *They also represent the big* institutions of capital and labour in Finland which are strongly committed to the modernisation of the country in a west European direction.

Mr Holkeri's government is very moch the creation of the country's powerful Social Democratic president Mr Mauno Koivisto, who won himself a second seven-year term in February 1988. It was his shrewd behind-the-scenes politicking in alliance with his party colleague and now Speaker of Parliament Mr Kalevi Sorsa that persuaded the National Coalition party to abandon its erstwhile *Centre* party *allies* and join forces with the more experienced Social Democrats along with the Rural and Swedish People's parties as minor government partners.

The whole manoeuvre continues to enrage Mr Paavo Väyrynen, the Centre party leader who argues that the National Coalition reneged on a written agreement with his counterpart Mr Ilkka Suominen that they would form a government with his party after the 1987 general election, where both the non-Socialist parties performed much better than the Social Democrats.


Paavo Väyrynen: sidelined

In fact, the deliberate exclusion of the Centre from power is an extraordinary turn of events for until two and a half years ago the party had been a member of every government since the country's independence 70 years ago.

To a very great extent modern Finland has been shaped by the policies of the Centre party. "Our strength derived from special historical circumstances," *Mr Väyrynen told the* Financial Times in an interview. "In other European countries there was a feudal system that created a huge landless poor and large estates. *Here,* we had independent small farmers and they formed the power base of our party in its origins earlier this century."

Today the Centre continues to heve substantial snpport from the rural areas of northern Finland, polling more than 40 per cent of the votes in Lapland hut it has made little electoral impact on the urbanised, affluent south with less than 5 per cent of the vote in Helsinki. But the party could not hope to survive on farmer votes alone nowadays.

As Mr Väyrynen argues the Centre enjoys a "broad appeal" across class lines with substantial support from lower income groups. The Centre appeals to the "little people", to small businessmen and shopkeepers. It upholds bourgeois values of sound money, thrift and a balanced budget and expresses its viewe in nationalistic language.

But the Centre party has also been a mainstay of good relations with the Soviet Union that goes back to the long reign of its most famous leader Urho Kekkonen, who held the Finnish presidency from 1956 to 1981.

Mr Väyrynen found himself involved in a rather embarrassing episode this autumn when it was revealed in a book that he appeared to be encouraging the Soviets to throw their support behind party colleague Mr Ahti Karljalainen in the 1981 presidential election as a proponent of the Kekkonen line. In fact, the Centre party threw its weight behind another candidate – Mr Johannes Virolainen so any pressure on Karljalainen's behalf from Moscow cut no ice.

Mr Väyrynen is unrepentant about his behaviour. He did nothing legally wrong hut he was chastised by fellow MPs on ethical grounds. The incident did throw a lurid light on the past nature of Soviet interference in Finland's domestic politics hut many observers believe that all the parties have been involved over the years in seeking or rebuffing Soviet help. In truth, there is a broad consensus ecross the political spectrum about Finland's relations with Moscow, which party leaders believe must be cordial and close without being subservient.

There seems little doubt that Mr Väyrynen's rather combative personality has helped to raise the political temperature but his opposition strategy appears to be working well. The Centre party has seen its electoral support rise from just over 17 per cent in the 1987 general election to around 23 per cent today in the opinion polls. "The Social Democrats thought they could wipe us out by forming a coalition without the Centre party but they have been proven wrong," he says. "In the last coalition they thought we were becoming their equals and they did not like it."

In fact, the Finnish party dog fight is something of a charade. After all, legislation that is passed by the Parliament has to win far more than a simple majority in order for it to become law. This means that a bipartisan approach is crucial if any government hopes to carry out its programme. Moreover the electoral system ensures that no party comes anywhere near achieving e plurality of seats in the 200 strong Parliament. Indeed, it is rare that a party can win more than a quarter of the votes in a general election. As a result the *art of coalition building is deeply embedded in* Finland's political culture.

It is easy to forget that the country's achievement of independence after the First World War – it had been a Duchy in the Russian Empire from 1809 after centuries of Swedish rule – took place through the turmoil of the Russian revolution and polarised the Finns in bloody conflict between Reds and Whites.

Today Finland's political system exudes Nordic calm and stability. Thankfully Mr Väyrynen's pugnacity is not aroused by fundamental isanes that divide the nation. Indeed, there *is no good reason to suppose* that he should not be elected to office after the 1991 general election.

But that may well depend on the attitude of the experienced Social Democrats who make up for their lack of votes and seats by their uncanny ability to divide their non-Socialist opponents.

Certainly after President Kolvisto, some of the most powerful figures in the country *are also Social Democrats,* most notably Mr Kalevi Sorsa, the present Speaker of the Parliament and a strong contender for the 1994 presidential contest, Mr Pertti Paasio, the current Foreign Minister and Mr Erkki Liikanen, the youthful Minister of Finance.

The Social Democrats remain pragmatic and revisionist with a strong belief in the social market economy and integration with western Europe. They are modernisers like the National Coalition and impatient with those conservative forces in Finland who now find their natural home in the Centre party.

The longer the coalition lasts the greater the chance it will survive the next parliamentary election, particularly if it can remedy the country's short-term economic problems. If this were to happen then Mr Väyrynen may find himself on the sidelines for some years to come.

Finnish Voting Trends

Political party	General election '87	Local elections '88	Opinion Poll Nov 1989
Social Democrats	24.3	22.3	22.3
National Coalition	23.1	18.6	19.1
Centre	17.6	32.9	23.0
Rural	6.3	3.5	4.0
Swedish People's	5.3	5.5	5.2
Christian	2.6	2.1	2.5
Liberals	1.0	0.5	1.4
Greens	4.0	-	6.8
SKDL (Euro-Comm)	9.4	9.4	9.3
DEVA (Stalinist)	4.2	1.0	1.8


Harri Holkeri, leader of the Conservative-Social Democratic grand coalition government

Economic growth has brought its problems, writes **Robert Taylor**

A casualty of overheating

MR ERKKI Liikanen, Finland's 39-year-old Minister of Finance, is in a self-confident mood at the moment. Just over a fortnight ago he won the broad approval of the country's main employers group and the central trade union organisation for a new two year wage stabilisation agreement.

This, he hopes, will go some way towards at least reducing the growth in Finland's deteriorating current account deficit that threatens to reach 4.5 per cent of gross domestic product in 1990 at FM24bn and lessen the inflationary pressures of nearly 7 per cent annual price *rises* and 8 per cent wage increases that have begun to erode the country's international competitiveness. It may also help to reduce the level of Finland's indebtedness ratio that threatens to reach more than 20 per cent of GDP in 1990.

"Our main problem is that our growth rate has been too great in the 1980s," Mr Liikanen told the Financial Times in an interview. It has averaged *around 4 per cent per cent* a year over the period, higher than any other country in the Organisation for Economic Co-operation and Development except for Japan.

"The overheating that has resulted from this has been made worse over the past two years as a result of our deregulation of the financial markets. This encouraged companies and households to borrow at home and abroad and not to save," he said.

Indeed, household saving has fallen from around 4 per cent of disposable income five years ago to more than below -1.0 per cent in 1989. In particular it helped to trigger a huge explosion in property prices that rose by as much as 36 per cent in 1988.

During the 1980s Finland has made enormous strides economically and its living standards have caught up with the rest of the affluent Nordic area. Its industrial productivity performance has been more impressive than most OECD countries with an annual increase of 6 per cent in the second half of the 1980s, though this has not stopped Finland's relative unit labour costs rising faster over the same period than among its main trade rivals. The country's volume of spending on research and development has also been running at a higher level than that of its Nordic neighbours.

In fact, Finland is having to cope with the consequences of its own success. In the opinion of Mr Pentti Vartia, managing director of the influential Research Institute of the Finnish Economy (ETLA), the government *should have acted* some time ago to deal with the economic deterioration, though he agrees with the Ministry of Finance's own analysis of what the problems are.

Mr Liikanen admits that the new stabilisation agreement that is expected to come into force next March will do little to lower the level of wage increases during 1990. It is true that the proposed rise for workers will be not more than 0.7 per cent next year with further increases only if price rises exceed 5.7 per cent.

But many can expect an additional rise of up to 6 per cent next year as a result of deals already agreed. "However, I expect almost zero wage increases in 1991, says Mr Liikanen, although as the next *Finnish general election is* due in March of that year the pressure on the government to relax its monetary disciplines can be expected to grow.

On the other hand, Mr Liikanen is pleased by what he sees as the good sense of trade union negotiators, who have been helped in accepting low central wage deals for the next two years by the government promise of a further lowering of marginal tax rates and higher child benefit to encourage worker self-restraint in wage bargaining.

There seems little sign that most Finns will be expected to take any actual cut in their real living standards as a result of the new policy. The worse they can face is a standstill in the substantial growth in their earning power over recent years.

In fact, some economists and employers feel that the *proposed wage rises* in the 1990-1991 stabilisation agreement are much too generous in order to achieve the widest degree of consent on the shopfloor. They point out that the existing stabilisation agreement did not work because it covered only 60 per cent of workers and had a built-in indexation clause that triggered much higher rises in pay than made any economic sense.


Erkki Liikanen: self-confident

'The economic overheating has been made worse as a result of our deregulation of the financial markets. This encouraged companies and households to borrow at home and abroad and not to save'

Mr Liikanen is honest enough to admit that he would like to have adopted a more restrictive fiscal policy with public spending cuts and higher pension and sickness insurance contributions to work in parallel with the stabilisation agreement. But political constraints made it impossible for him to sell such an idea to his apprehensive cabinet colleagues.

"We are very unpopular as a government at the moment," he says. "But I believe the atmosphere will change now that we have got a new stabilisation deal." In his opinion, the agreement will ensure Finland's inflation comes down below the OECD average over the next two years.

But he remains determined to uphold a fairly tight fiscal policy with the maintenance of high interest rates, which have climbed to 15 per cent from 9 per cent at the beginning of last year. Last spring's revaluation of the Finnish markka by 4 per cent was an impressive indicator of the government's intention to pursue policies of financial rectitude.

Moreover, Mr Liikanen adds that he intends to continue running a large budget surplus to retain the confidence of the markets. "My left wing think we should spend that money on welfare and the right favour big tax cuts but I am not prepared to follow either course," he says. "My objectives are clear – to cut the deficit and reduce inflation."

What has become particularly worrying this autumn has been the rapid deterioration of Finland's visible trade performance with the move out of surplus into a trade deficit of FM5bn this year. In 1988 the forestry industry accounted for 46 per cent of the value of Finland's exports, much higher than previous years and an unhealthy indication that the country's manufacturing sector is finding it hard to compete effectively abroad.

The current economic troubles in Finland are unlikely to lead to any radical change of direction by Mr Liikanen. He remains an unrepentant champion of market solutions in spite of the resentment of some of the old guard in his own Social Democratic party.

"We have to modernise Finland as a European state," he declares. "We need an effective, well run market sector which is competitive in the world. Markets must be allowed to work and given the air to breathe." He talks enthusiastically about the internationalisation of the Finnish economy and criticises his own country's high levels of agricultural subsidies.

A pragmatist in his attitude to industry, he does not want to see any further growth in the size of the public sector. This remains lower than in other Nordic countries, accounting for 44 per cent of GDP compared with Sweden's level of 60.4 per cent though it has been rising in the 1980s.

"I favour keeping our public sector flexible," he admits. "We have fewer state owned industries than anywhere else in western Europe and those that exist behave in exactly the same commercial way they would do if they were in private hands."

Nor does Mr Liikanen have any time for industrial subsidies. Recently the Finnish cabinet bit the bullet and refused to bail out the loss-making Wärtsilä shipyards.

Although happy about the prospects for a two year centralised stabilisation deal with employers and unions on wage rises he does not see such agreements as a long-term solution to Finland's economic problems.

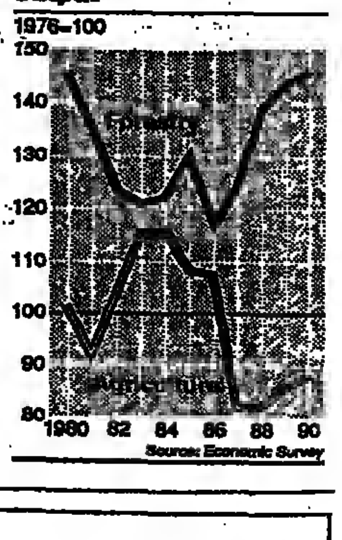
"In some ways it looks like a return to the good old days," he says when corporatist bargaining dominated industrial politics. But Mr Liikanen hopes that after 1991 employers and unions will determine wage rates at a level related more sensibly to market pressures of supply, demand and profitability.

There is no good reason to believe that the Finnish economy is about to move into a deep recession. "We remain a growth-oriented country," says Mr Vartia at ETLA. "All we need is a period of pause." In fact, most Finnish policy-makers remain optimistic enough to believe that the country can return to fast growth rates after 1991, particularly with the increasing internationalisation of the deregulated economy.

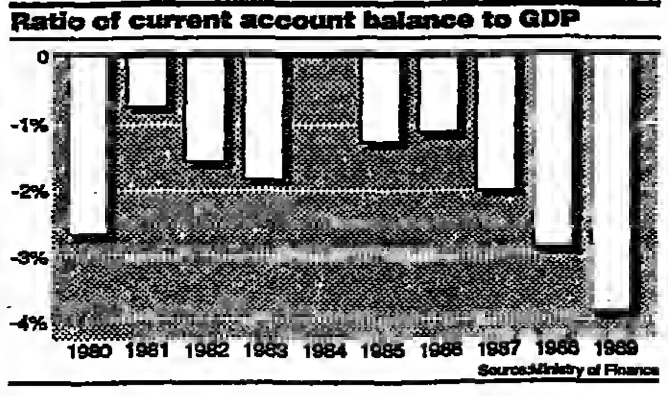
The eventual success of Mr Liikanen's economic strategy really depends on just how far he can go in pushing through his tax reform programme that started this year and what impact they will make on economic behaviour. By Nordic standards Finland is not so heavily taxed but the highest marginal tax is around 70 per cent and the average has been 50 per cent with 80 per cent being paid to the state and the rest to the local authority.

The government's avowed aims in its tax changes may be less ambitious than in Sweden but they do represent a significant attempt to simplify the system and also to make it both fairer and less onerous. However, there still remains much to be done to bring Finland into line with western Europe.

Agriculture and forestry output



Ratio of current account balance to GDP



Fifty years on the Winter War remains shrouded in myth and glory for most Finns, reports **Robert Taylor**

An indelible imprint on the collective conscience

THE Winter War continues to hold a tenacious grip over the collective memory of Finland's older generation. In the 50th anniversary year of the outbreak of that conflict books, exhibitions and a powerful widely acclaimed film have brought home to all Finns its continuing importance.

It is not hard to understand wby. For 105 days – from November 30 1939 to March 13 1940 – the country's small forces held back the might of the Red Army after its unprovoked attack. An estimated 25,000 Finnish soldiers died in the conflict and 45,000 more were wounded but as many as 220,000 Russians also perished with a further 800,000 injured.

This was not to be the end of Finland's suffering. In June 1941 the country joined Hitler in his genocidal attack on the Soviet Union in order to recover the territories it lost after the Winter War. The so-called Continuation War lasted until September 1944 whsn Finland negotiated an armistice with Stalin. As part of that settlement Finland was compelled to eject by force German troops based in the country. They proceeded to demonstrate their devotion to Finland by inflicting a scorched earth policy on Lapland.

An estimated 100,000 Finns were killed in the entire war out of a population of 4m. A million Russians also perished fighting over Finland. In the words of Finnish historian and diplomat Max Jakobson in his account of the conflict, during the Second World War: "Finland was defeated but she was not conquered" (Finland Survived; Otava Publishing Co, Helsinki 1984 edition).

The country's resistance to the Soviet invader in the winter of 1939-40 and again in June 1944 "succeeded in raising the cost of breaking it to a point which the Soviet leaders must have regarded as excessive." Max Jakobson goes on: "As a result, of all the nations on the continent of Europe involved in the Second World War, only Finland escaped an enemy occupation: Her social fabric remained intact and the continuity of her political institutions unbroken. In this fact, which is the key to understanding her present position as an independent nation, lies an achievement that transcends the conventional meaning of such terms as defeat or victory. For in the end Finland did not fight for Karelia or Petsamo. She did not fight for any abstract principles or ideals. She fought for national survival."

And he concluded: "Finland survived. This may seem a pitifully unheroic end to a story of so much effort and sacrifice, suffering and blood. But for a small nation, in the iron times of the Second World War, survival was a rare triumph."

Indeed, for a brief period Finland was the centre of admiring world attsntion. The bloody struggle in the north diverted attention away from the embarrassment of their own phony war with Hitler on the western front. A wave of public sympathy for the Finns swept across the democratic world. The issue seemed so simple. Here were a small, brave, democratic people fighting for their rights against a totalitarian state, a veritable David pitted against Goliath.

Bnt sympathy was never enough. The Swedish government did little except urge the Finns to surrender, though many Swedes sent food and blankets and more than 2,000 Swedes volunteered to fight in Finland, which was once part of their Baltic Empire. In the words of Sweden's prime minister Per Albin Hansson most Swedes were "selfish abont peace" and prepared to tolerate Finland's defeat.

For Britain and France the war in Finland opened up the possibility of taking the conflict against Nazi Germany into northern Europe. Winston Churchill in particular wanted to exploit the Finnish-Soviet struggle as a pretext to occupy parts of Norway and Sweden and cut off Hitler's iron ore supplies for his war machine.

An Anglo-German expeditionary force was even mobilised with the avowed aim of going to Finland's aid though it never left port because the Finnish government sued for peace with Stalin, cleverly playing the threat of Anglo-French intervention as a card to convince the Soviet Union to settle on less than total victory.

It was just as well the Winter War ended in mid-March 1940. By agreeing to Stalin's tough terms Finland saved not *just itself from annihilation.*

President Mauno Koivisto with Mikhail Gorbachev during the Soviet leader's visit to Finland in October: thanks to glasnost Soviet historians – after more than 40 years of silence – have concluded that Stalin was the undoubted aggressor in the Winter War

Fifty years on the Winter War remains shrouded in myth and glory for most Finns and who can blame them. After all, by fighting the Red Army to a virtual standstill, the Finns did not suffer ths fate of the Baltic states to the south who conceded Stalin's threatening demands for military bases on their soil and a year later found themselves annexed into the Soviet Union.

There can be little doubt what the fate of Finland would have been if the country had failed to defend its independence by force. The country would also have disappeared *into Stalin's evil Empire.*

In November 1939 Stalin may well have believed that Finland was a corrupt bourgeois society whose oppressed masses were only waiting for ths day of Communist liberation. But the puppet regime in exile he had planned to rule Finland led by Otto Kuusinen, Finnish secretary general of the Comintern, failed to find any popular support in the country at all and it was quickly removed from the scene.

Stalin had thought his forces would be in Helsinki within a few days. His complacency was quickly shattered. On the battlefield the Finnish troops made up for their lack of numbers and weaponry by greater flexibility and enormous courage. They were helped by one of the worst recorded winters in Finnish history with temperatures falling to 50 deg C below zero even in December.

Many Soviet soldiers lacked the basic equipment to withstand the cold and froze to death. Their war machine was found to be clumsy and inept, unable to cope with the savage conditions. Moreover, the Red Army was badly led by inexperienced officers after Stalin's purge of the high command only a year earlier. There was to be no Soviet blitzkreig.

Of course Finland could not have held out indefinitely but very little of the country had been occupied by March 1940. Even on the vulnerable Karelian isthmus the Finns held firm until the armistice of March 13. It is understandable why Max Jakobson calls the end a "victory in defeat."

Was the war avoidable? Thanks to glasnost under President Mikhail Gorbachev Soviet historians – after more than 40 years of silence – have reached the conclusion that Stalin and the Soviet Union were the undoubted aggressors, that the intention was to absorb Finland into the Soviet Empire as a result of the August 1939 Nazi-Soviet pact. The swift conversion of Soviet historiography only in the past few weeks to such a view has made many Finnish academics rather uneasy.

In fact, the culpability for the cause of the war looks less clear cut 50 years on. In a speech to the Paasikivi Society on November 27 this year President Mauno Koivisto declared that the crucial question that had to be posed and answered about the Winter War was: "Would it have been useful for the Soviet Union to show confidence in Finland's will and ability to prevent the use of her territory for offensive purposes against the Soviet Union? As he pointed out: "Seeking certainty in this respect led to great suffering on both sides."

Stalin's limited aims were conditioned by an understandable need to protect his country from invasion. Leningrad was particularly vulnerable to attack as it was then only 20 miles from the Finnish border. In the protracted negotiations with the Finns in October-November 1939 Stalin first called for a treaty of mutual assistance giving the Soviet government the right of military intervention in Finland if that country was attacked by another country.

But when rejected out of hand by the Finns it was never mentioned again. Instead Stalin told the Finns that the 1932 Soviet-Finnish non-aggression pact could be amended so neither side would join any alliance or grouping directly or indirectly hostile to the other. This was a change Finland accepted.

But the Soviet dictator also sought to secure the safety of Leningrad. This involved the ceding of islands by the Finnish government in the Gulf of Finland; a 30 year leased base on the south west tip of Finland at Hanko; and the Soviet annexation of territory on the Karelian isthmus and the western part of the Rybachi peninsula on the Arctic ocean. In return Stalin promised Finland territorial compensation in Soviet Karelia, twice as large as he was demanding.

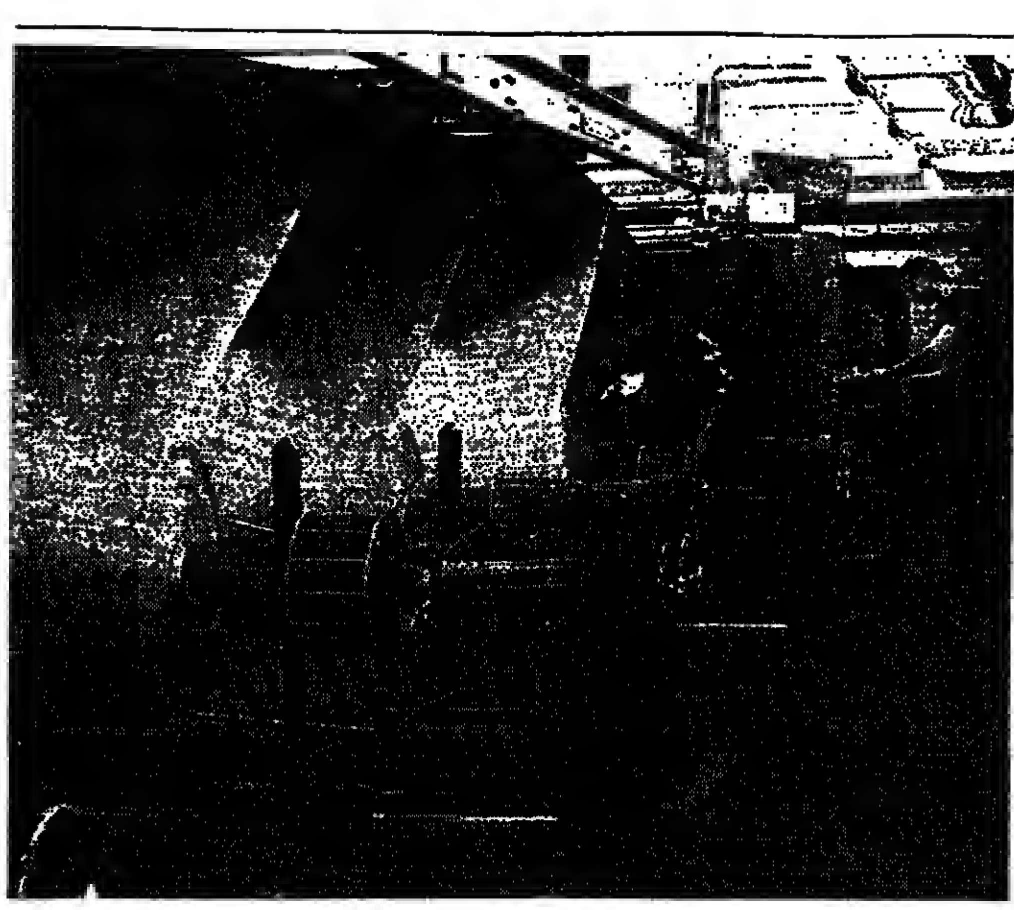
By his standards Stalin displayed surprising magnanimity in the negotiations that he attended personally more than once. But the Finnish government could not accept all of his demands, especially the creation of a Soviet naval base at Hanko and it sought to reassure him that Finland would remain neutral and not become a launching pad for any foreign power who wanted to invade the Soviet Union. Indeed, the initial Soviet demands were actually scaled down during the subsequent negotiations though the Finnish cabinet was unimpressed, interpreting each of Stalin's concessions as a sign of weakness.

As Max Jakobson points out Stalin's demands revealed his traditionalist thinking as a military strategist for when war with Nazi Germany came eventually in June 1941 none of the protections that he had sought did anything to stem Hitler's attack.

But the legendary Marshal Mannerheim, then chairman of the defence council and Juho Paasikivi, the main Finnish negotiator with him and later Finnish president, did not find what Stalin wanted unreasonable. Both men thought Soviet military interest and Finnish independence were reconcilable. Their view did not prevail.

Finland was forced to accept a much greater loss of territory than Stalin had ever desired before the Winter War. The Finns had to hand over a tenth of the country in Karelia where an eighth of the population lived including Finland's second biggest city Viipuri, as well as the leasing of Hanko as a military base and other territory in northern Finland.

Max Jakobsoo sees the Winter War as a "turning point" for Finland. "It gave us a sense of national unity which we had lacked since independence and which has stayed to this day," he says. "The outcome also made us feel we had been let down by others, that we can only trust ourselves. This has brought a certain disillusioned way of looking at international politics but also a healthy attitude based on self-reliance. The West has never really understood our position. But neither occupied nor humiliated in the war we came to recognise that it was the strength we found within ourselves that saved us."



Paper conversion division of Amer Group, one of Finland's largest paper and pulp groups

ENSO-GUTZEIT

European catalyst

ENSO-GUTZEIT, Finland's third largest paper and pulp company, made history last October when it became a majority partner in the Soviet Unioo's first overseas joint venture.

Finland has secured good economic ties with its giant eastern neighbour through five-year trade accords that work on a semi-barter clearing-house scheme. Yet necessity aside, Finnish companies are quick to point out that they are not motivated by goodwill gestures when doing business with the USSR, but by profits.

The new joint venture, Enocell, which will be 80 per cent owned by Enso-Gutzeit and 20 per cent by the Soviet company Karellesprom, will produce upon the completion of the Uimaharju mill in 1992 485,000 tonnes of pulp a year and will have a raw material input of between 500,000 cubic metres and 550,000 cu m of birch wood.

The raw material for the Uimaharju plant, located about 400 km north-east of Helsinki and near the Soviet-Finnish border, will come from the USSR. The price of the raw material will be determined by "market prices" and will be paid to the Soviets in hard currency. This arrangement is significant considering that trade between both countries has been largely carried out on a barter basis.

Although the Finns will manage the new plant, Enso-Gutzeit officials say that the significance of the venture will be in serving as a window to the West for the USSR forest industry.

Like all big Finnish paper and pulp companies, Enso-Gutzeit's main markets are in western Europe, generating between 80 per cent and 85 per cent of the group's annual net sales of FM9.7bn in 1988.

"Although Finnish state-owned companies are run just like private ones, a challenge in the 1990s is to find suitable schemes to attract investment capital into the company," said Mr Jukka Härmälä, who was appointed last August as Enso-Gntzeit's new chairman and chief operating officer.

Enso-Gutzeit, one of the few Finnish companies quoted on the London Stock Exchange, has in recent years been divesting from sectors that are not forestry related. Mr Härmälä, who expects more such moves in the future, believes that Enso-Gutzeit will continue to invest and be a leading European market leader in paperboard in the 1990s with plans to increase capacity in the group's fine paper division, especially in copy paper.

Enso-Gutzeit controls 40 per cent of the western European paperboard market. Net sales for the division in 1988 reached FM2.22bn while the group's fine paper sector reported sales of FM1.56bn last year.

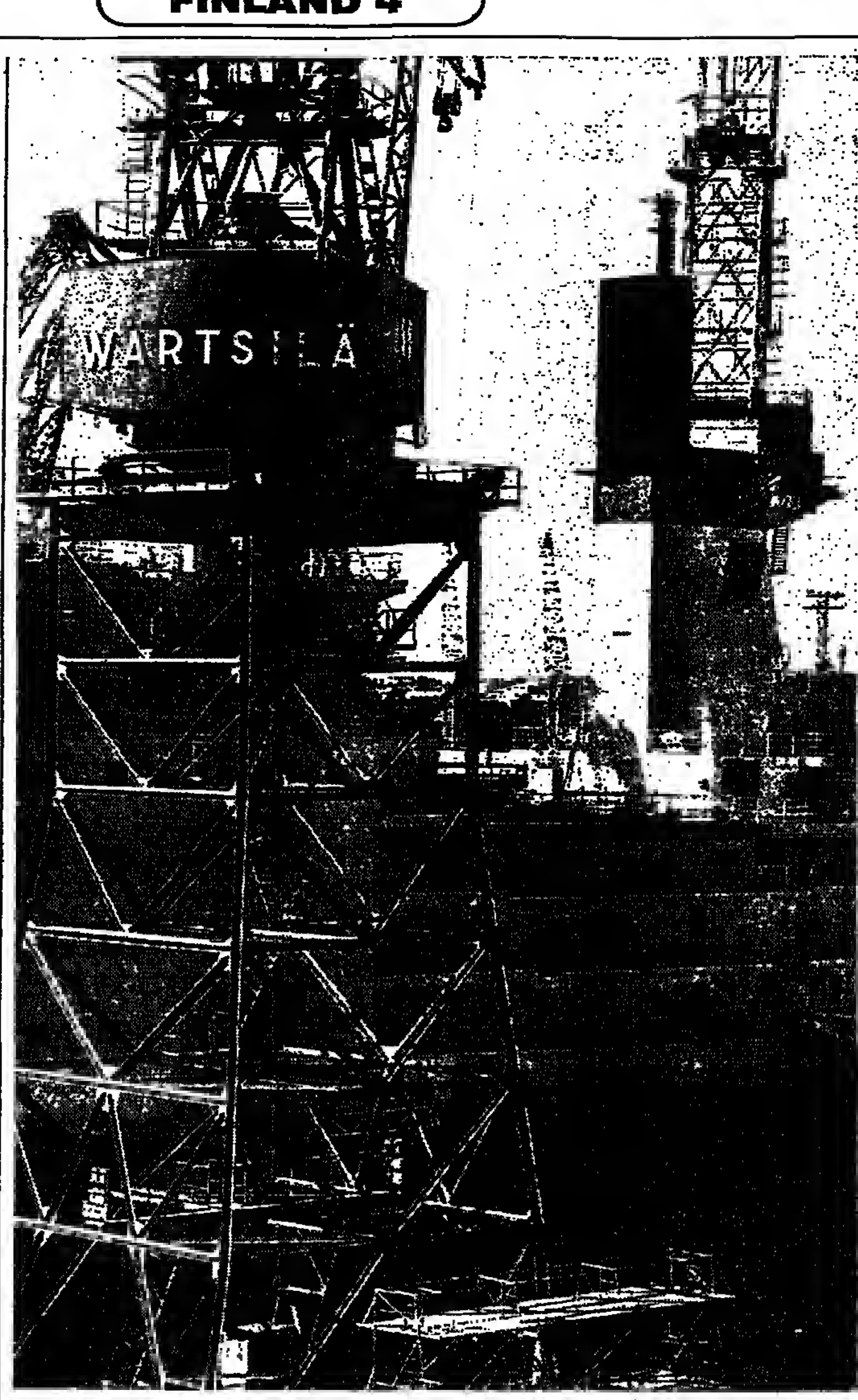
Many analysts believe that Finland's paper and pulp sector is saturated, though as Mr Härmälä points out, the coming years could see a period of mergers between Finnish companies. However he rules out any cross-border marriages. "I don't believe that there will be any mergers in the near future between Finnish and Swedish paper and pulp companies. If I have to estimate how many forestry companies there will be in Finland in the future, I would say four leading ones."

At present, there are about 11 leading companies, the biggest of which is 30th in the league of global players. However, size, according to Mr Härmälä, is unlikely to be a crucial factor in determing success in the next decade.

The forestry industry is the backbone of Finland's economy and it is no wonder thet Finns have been sensitive about allowing foreign companies a foothold in the sector.

Even if these existing ownership restrictions are lifted, Mr Härmälä has his doubts that foreign forestry companies will enter the Finnish market. "Since we are strong in this industry, I believe that acquisitions will happen from Finland to western Europe and not the other way around," he said.

Enrique Tessieri



National disaster: Wärtsilä shipyard, whose collapse has been described as a catastrophe

SHIPPING

Industry pride sinks to an all-time low

FOR THE 5m people of Finland, the country's shipbuilding industry has for many years been the source of great national pride.

However, this national pride received a severe battering in October when Wärtsilä Marine, one of Europe's largest privately-owned shipbuilding companies, filed for bankruptcy, just two months after the Government had stepped in to bail out the loss-laden company.

Today, Wärtsilä Corporation, the diesel, securities and sanitation equipments group that originally owned 70 per cent of the shipbuilding company together with state-owned Valmet's 30 per cent stake, blames its marine division's acute economic problems on external factors.

These included high European Community subsidies to member states' shipyards, the 4 per cent revaluation of the Finnish markka last March, rising inflation (from 5.1 per cent in 1988 to more than 7 per cent for 1989), as well as labour shortages and no new ship orders from the USSR for the past three years.

Picking np the scattered pieces of Finland's shipbuilding industry has not been an easy political task. It has been hest described as a tragedy that has put insurmountable obstacles and queries over the future role of the shipbuilding industry.

Analysts also believe that part of the problems that drove Wärtsilä Marine into bankruptcy only two years after its creation in 1987, was the Government and Wärtsilä's excessively rosy outlook of the global shipbuilding industry.

With low oil prices continuing to undermine Helsinki-Moscow trade, Finland, which of the western European countries carries least weight in Brussels, attempted without luck to convince the EC to lower subsidies to member countries' shipbuilding industries.

Masa-Yards, the company created last November from the wreckage of Wärtsilä Marine, was largely set up to restore Finland's tarnished image, secure the bulk of the 6,500 jobs as well as renegotiate the prices of ships under order. The construction of these vessels had become uneconomical thanks to the deterioration of the Finnish economy.

Mr Martin Saarikangas, the new chief executive of Masa-Yards, feels that his new company will have a much lighter organisation than Wärtsilä Marine. He felt that one important factor that led to Wärtsilä Marine's fall from grace was that its labour force of 6,500 was too small to handle all the vessel orders and therefore the company was forced to seek sub-contractors. Last August, Wärtsilä's marine division had orders totalling around FM6bn covering some 16 vessels.

Masa-Yards began life with an equity stake of FM370m, which comprises FM100m from the state, FM100m from Union Bank of Finland (UBF) and the remaining FM170m from various shipping companies such as Carnival Cruise lines, Effoa, Svea Line.

One of the biggest surprises during the creation of Masa-Yards was that Wärtsilä would not be represented on the new company's board. Although Wärtsilä was originally supposed to be part of Masa-Yards through an equity holding of FM200m, the money was, instead, taken by the new entity as a subordinate loan.

"This bankruptcy is the biggest catastrophe for the country. One of the things we can do by establishing Masa-Yards is to try to raise the image of Finland," Mr Saarikangas said just two days before his company was registered.

The new chief of Masa-Yards also stressed that the future of his company was dependent on subsidies. He is unsure about the extent of the subsidies the company will receive but said he hoped that the yard would be given an opportuoity to stand on its own two feet.

Mr Saarikangas also rejected statements that his company was created only to be later merged with Finland's two other shipbuilding companies, Rauma-Repola and Hollming, both of which are also privately owned and whose marine divisions are operating in the red. Rauma-Repola's shipbuilding division incurred a loss of FM266m on sales of FM1.26bn in 1988.

Conld the Wärtsilä Marine ordeal been averted if the Government had granted subsidies to Finland's shipbuilding industry in the first place just as EC shipyards had received from Brussels?

Mr Ilkka Suominen, the Minister of Trade and Industry, disagrees. According to him, demands placed by Finland's three shipbuilders during talks with the Government last year to merge the three into one company, would have been a more expensive solution than allowing what transpired to be Finland's largest bankruptcy.

In order to ensure that Masa-Yards would not assume Wärtsilä's debts, a new financing package was created last month, stemming mainly from discrepancies between the Government and Wärtsilä on the true losses of the shipbuilder's marine division.

This package works on a sliding-scale scheme with a maximum liability of FM1.7bn. Wärtsilä's maximum liability in this package is limited to FM705m, the state FM675m, UBF and Postipankki jointly FM240m and Valmet FM70m.

Enrique Tessieri

DEREGULATION

The high price of opening up

CONVINCING some sectors of Finnish industry that deregulation and the dismantling of domestic cartels will bring a healthier economic future will be one of the main challenges facing the anthorities in Finland in the 1990s, according to Mr Matti Purasjoki, who heads the Office of Free Competition (OFC).

The OFC employs 47 and works with a annual budget of FM10m. Its main task is to enforce the Act on Restrictive Business Practices which came into effect on October 1 1988. In spite of its meagre resources, the OFC is a marked improvement from the days when the public interest was defended by a competition ombudsman with a staff of six employees.

Although analysts believe that Finland is heading in the right direction with respect to deregulation, the very process has, however, brought its own share of chaos as well as inflationary pressure on the economy, such as in 1986-87 when restrictions on the financial markets were lifted, making loans more easily accessibie. This eubeequently fuelled demand in the construction and real estate sector, forcing up house prices nationally by 36 per cent and 40 per cent in Helsinki last year. Helsinki has become western Europe's second most expensive city, after Oslo.

"Deregulating and demonopolising part of the market that is dominated by a few companies is the high price the Finnish economy will have to pay for opening up. This, naturally, will stabilise itself in the long run. We have to understand that unhealthy competition is like putting a noose around the neck of the Finnish economy," said Mr Purasjoki.

The head of the OFC, which is a part of the Ministry of Trade and Industry, says that the deterioration of the economy with inflation rising from 5.1 per cent to more than 7 per cent this year, is mainly due to three factors: lack of competition in the industrial and labour markets, and Government economic policy.

"Our market is exactly the same as elsewhere in Scandinavian...we are big countries, have few people and the markets are small and traditional. The service sector, for example, is closed to competition, and it tries to make everyone happy by offering high incomes. The way these objectives were reached has not encouraged wider competition," he explained.

Another factor that has undermined competition has been local legislation that restricts foreign companies from establishing themselves in some key market areas.

Although foreign companies outside Scandinavia as a rule are able to own 100 per cent of a Finnish company, there are implicit restrictions that forbid foreign companies from participating in the real estate sector (which is dominated by e few companies), mining, basic forestry industry production and oil refining. These restrictions, however, may change in the near future.

Mr Purasjoki believes that one of the OFT's greatest victories has been against horizontal price cartels. The campaign was launched last Christmas and already up to 80 price cartel cases out of 210 have been resolved.

Another accomplishment of deregulation has been the emergence of private radio stations while in the electricity market improvements have been considerable too. Before deregulation, Imatran Voima (IVO), the state-owned electricity utility company, was the only company permitted to import electricity. Recently, however, Teollisuuden Voimansiirto, owned by four privately-owned utility companies and Nokia, received permission from the government to import 100MW of Soviet electricity during 1990-92 and from then on, until 2004, 300MW per year.

In the forestry sector, Osuuskunta Tontiöljy (OT), owned hy Finland's leading timber groups, has asked the government for permission to import a 20,000 tonne consignment of heavy fuel oil from a Swiss trading company. OT had tried unsuccessfully on an earlier occasion, in 1981, to break the foreign oil import monopoly of Neste, the state-owned oil and chemicals group. It was not until 1987, however, that permission was finally granted to import and trade in heavy fuel oil, light fuel oil and diesel (from the USSR to third countries), though not to OT but to Suomen Petrooli (SP), a Finnish subsidiary of the Russian oil company Soyuzneftexport. In reality Neste'e monopoly is as strong as ever.

Since Finnish-Soviet semi-barter trade is regulated by a clearing-house echeme, SP'e main job has been to import "expensive" oil from the USSR for export to countries like East Germany and Poland. This measure has helped to lower the trade deficit in the past two years within the clearing-house scheme when it was clearly in Finland's favour.

Agriculture is an altogether more difficult sector to deregulate, says Mr Purasjoki, largely because it is heavily subsidised by the state and therefore raises important political questions: The most difficult task of the OFC, according to Mr Purasjoki, has been to convince the public that rapid deregulation and the smashing of cartels does not lead automatically to lower prices.

Another huge task for the OFC has beeo to break the tight monopoly of the powerful wholesale-retail chains: Kesko, Tuko, SOK and EKA. Mr Purasjoki says that a big personal challenge will be to break their market stranglehold within five years. He said that the rest of the industry had not been so critical of the oligopoly only because they were totally dependent on it for goods and supplies.

"I believe that these companies have become lazy and are unprepared for competition. Their idea of competing is to control market shares and that type of competition does not lead to anything," he said.

Enrique Tessieri

VALTION METALLI

An eventful chapter

VALTION Metalli (Valmet), the state-owned Finnish engineering and paper machinery group, breathed a sigh of relief last autumn when it saw its main partner Wärtsilä go through the pain and agony of giving up its marine division, one of Europe's leading shipbuilding companies.

For it was only three years ago that Valmet and Wärtsilä Corporation decided to set up two new shipbuilding and paper machinery joint ventures. In the marine venture, Wärtsilä held a 70 per cent stake to Valmet's 30 per cent holding, while in the paper machinery entity Valmet took a 60 per cent stake against Wärtsilä's 40 per cent holding.

The fortunes of the two new companies have varied enormously: last October the shipping venture, Wärtsilä Marine, ended up filing for bankruptcy while the paper entity, Valmet Paper Machinery, continues to turn in a profit. Wärtsilä Marine's collapse was mainly due to external factors such as high European Community subsidies to member states' shipping yards and the worsening Finnish economy.

In 1988 Valmet's overall paper machinery operations accounted for 23 per cent of the world market with the West German Voith and Beloit Corporation of the US jointly controlling 20 per cent apiece.

Since the founding of the company, net sales for Valmet Paper Machinery have grown from FM3.27bn in 1987 to FM4.40bn in 1988 and are expected to reach some FM5.5bn in 1989, or roughly 50 per cent of the group's total sales. A large proportion of the division's net profits goes into research and development.

This summer, Valmet Paper Machinery's orders to 1991 stood at FM7.5bn and included more than 30 paper machines destined for North America, Europe, Asia and the home market itself. Valmet officials hint that although orders are slightly high at the moment, they do not expect this to impose undue strains on the company.

Mr Matti Kankaanpää, Valmet's chief executive, spent some six years with Beloit Corporation, one of Valmet's main rivals. An engineer by training, he once wrote a thesis on machines capable of devouring between 15 hectares and 20 hectares of forest a day and converting it into about 800 tonnes of paper.

The group is looking to secure a competitive niche in the market

Since Mr Kankaanpää took over the helm of Valmet in 1980, he has had to overcome several challenges. These focus mainly on how to lower the group's overheads while increasing profitability as well as finding a competitive niche for his company.

"We don't have anything in the pulp sector, but we have paper machines...it has been our strategy to focus on the forestry industry since the paper and pulp sector offers good possibilities for us in the future," he explained.

Valmet's chief executive discounts the likelihood of one of the world's three paper machinery giants falling victim to the increased competition forecast for the 1990s.

"I believe that each one of us has geographically strong areas. With respect to the smaller paper machinery companies, there may be pressure on them to merge or find specific niche products. However, I'm not saying that they cannot also survive and make a profit in the future," he added.

After several good years on the back of exceptionally high annual growth rates of between 4 per cent and 5 per cent in the global forestry industry, Mr Kankaanpää, believes that there will be a turnaround in 1990.

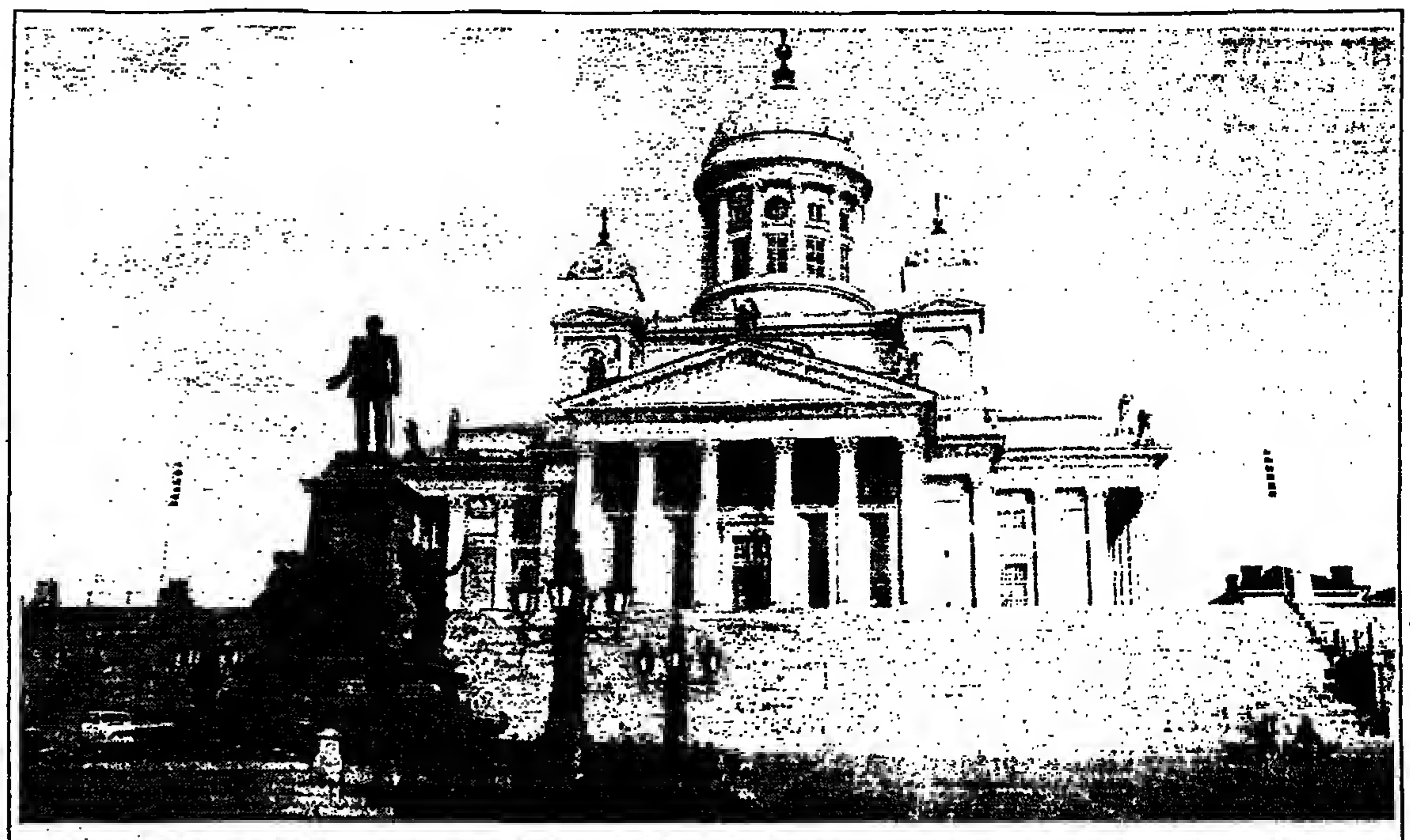
Valmet has been strongly consolidating and divesting its operations in recent years to focus its activities on the forestry-based industry. Seventy per cent of its products, which include harvesters, log handling equipment, tractors and a large automation division, are earmarked for this industrial sector.

Mr Kankaanpää places great hope in the next decade on the group's tractors and logging division, whose sales will increase thanks to increasingly mechanised logging operations.

While Scandinavia continues to be an important market, most of the group's tractor operations are concentrated in Brazil, where it turned out some 29,900 tractors in 1988 and commands a 28.8 per cent share of that country's market.

Valmet also has plans to expand its tractor operations in Portugal in the next decade and take a chunk of the market in the Iberian Peninsula. Mr Kankaanpää believes that the group's tractor division should not only continue to be a strong player in South America in the 1990s, but also in the southern EC region as well as in Scandinavia.

Enrique Tessieri



Helsinki's Senate Square with the city's most famous cathedral, known as the Great Church, and a statue of the Russian emperor Alexander II in the foreground

OUTOKUMPU

Predator reaps reward

SOMEONE once inferred humorously that the future of Outokumpu, a state-owned base metals group, was so bright that it would have to wear sunglasses. Mr Ossi Virolainen, the group's deputy vice-president, admits that Outokumpu is today stronger than ever and attributes this achievement to clear goals and strategic investments.

The group's profitability has also been spurred by global copper, zinc and nickel prices, as well as by a strong demand for stainless steel. Global consumption for stainless steel has grown during the past 10 years at a rate of 5 per cent, and increased by 13 per cent in 1988.

"We have achieved a lot in the past 12 months. In copper last year we concluded a 7 per cent purchase agreement with the La Escondida mine in Chile. One of our major acquisitions this year was the Australian company Forrestania, where we gained a 55 per ceot stake and secured our future nickel needs," Mr Virolainen said.

Last month the group acquired an even bigger stake in the Chilean copper industry by taking control of the Zaldivar copper deposit, located 150 km south of the northern city of Antofagasta. Preliminary studies at the copper deposit indicate that there may be 60m tonnes of ore everaging 1.6 per cent copper content.

Outokumpu also acquired a bigger foothold in the European semi-fabricated copper market last summer by raising its share in Iberica del Cobre (Ibercobre), Spain's leading copper alloy semi-products manufacturer, from 21 per cent to 75.5 per cent. The Ibercobre acquisition turns Outokumpu Copper, whose net sales accounted for 24.9 per cent of the group total at FM3.22bn in 1988, into Europe's second largest semi-fabricated copper producer.

Mr Virolainen makes no effort to disguise Outokumpu's long-range plans to increase its 3 per cent stake of the stainless steel market and become a global leader in this sector in the next decade.

The group has already taken some concrete steps in this direction. This year, it decided to invest FM550m in its already highly integrated stainless steel plant in the northern city of Tornio. This will raise the Tornio plant's annual output of cold-rolled products from 150,000 tonnes to 250,000 tonnes by early next year.

Whether or not new acquisitions are in the pipeline for the new year, the company has, in the meantime, been actively involved in developing the enormous mining wealth of the Soviet Kola Peninsula.

Last summer, Outokumpu finished building a concentration unit at the sizeable Apatite mill in Apatite City, about 400 km south of Murmansk. The project took three years to complete and has raised phosphorous production in the USSR by 30 per cent, according to Outokumpu officials, who also have plans to build and upgrade a second concentration unit at the mill.

Although Outokumpu has already secured its needs in nickel mainly through its Forrestania acquisition, the group has also signed a letter of intent with an option to form a joint venture with the Soviet Kola-based company Petzenka Nickel Combinate (PNC) in Zapoljarny, some 200 km west of Murmansk.

If the project materialises, Outokumpu will also help build a nickel mine that will supply the PNC mill, whose annual capacity would be between 6m tonnes end 7m tonnes of ore.

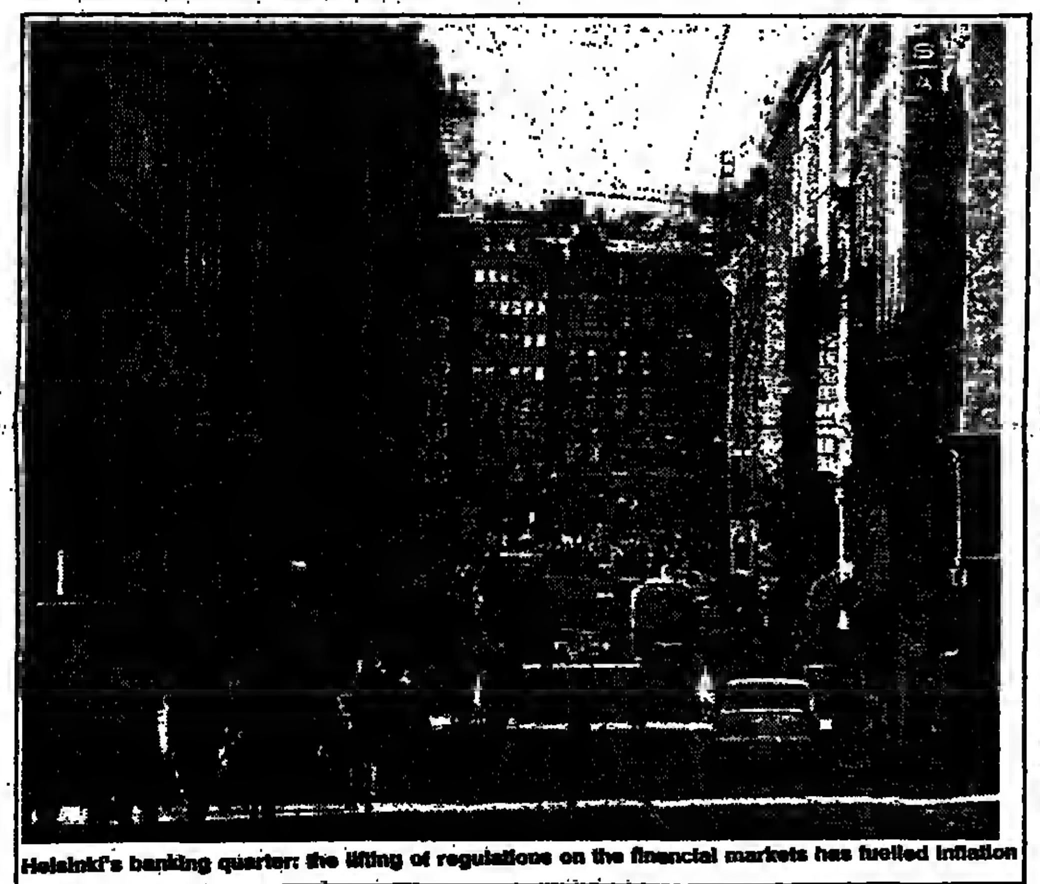
The Kola Peninsula project is still an open question. "Negotiations still need to be conducted with the Soviets. Even if the area offers good possibilities for us, at least for now, the most important aspect of the so-called Kola project accord is to get sulphur emissions lowered from the Soviet side," Mr Virolainen explained.

Not only have mining plants caused great environmental harm in the Kola Peninsula, but sulphur emissions are also threatening to devastate large areas of forest in the northern Finnish region of Lapland.

The poor economic situation in the USSR and the restructuring presently under way due to perestroika, have not prompted Finnish companies to propose joint ventures in the Kola Peninsula with Soviet companies. Although the Soviet market offers considerable future potential for Outokumpu, today it accounts for only 4 per cent of the group's world-wide operations. In 1988, 60.3 per cent of the group's total net sales of FM9.7bn came from EC and Efta markets.

Mr Virolainen sees the market in the next decade becoming increasingly competitive. According to him, there will only be five companies involved in the European semi-fabricated copper market and 10 world-wide. "Apart from us, the Japanese, South Korean, American and Italians will be strong in this field."

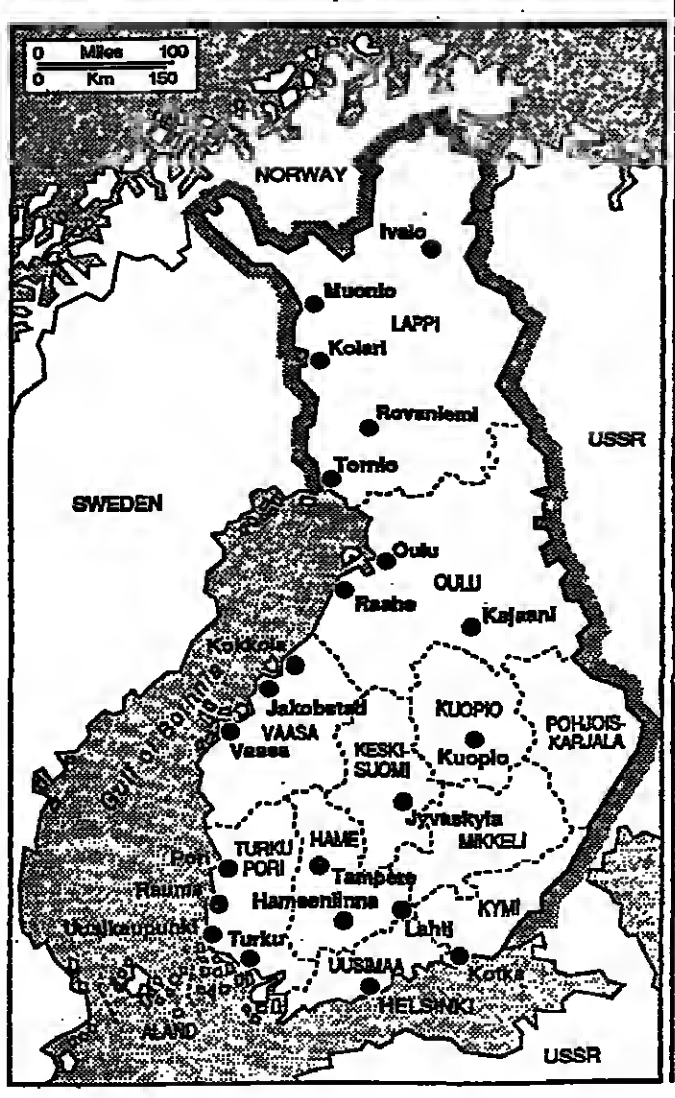
Enrique Tessieri



Helsinki's banking quarter: the lifting of regulations on the financial markets has fuelled inflation

KEY FACTS

Area: 338,000 km
Prime Minister: Harri Holkeri
Population: 4,932,000m
Population growth:
0.3% (88); 0.3% (87)
Urban pop as % of total:
60% (87)
Average other high income economies: 77%
Current account balance:
$-2,998m (88); $-1,949m (87);
$-731m (86)
Merchandise exports:
$21,822m (88); $19,026m (87);
$16,005m (86)
Merchandise imports:
$20,686m (88); $17,703m (87);
$14,363m (86)
Trade balance: $1,136m (88);
$1,323m (87); $1,642m (86)
GDP growth (1985 prices):
3.8% (88); 2.3% (87);
1978-88 evg 3.4%
GDP per capita: $18,137
(87, market prices)
Current account deficit as % of GDP: 2.2% (87)
GDP per capita: $12,838
(87, using PPPs)
Inflation: 5.1% (88); 3.7% (87);
1977-88 avg 7.4%
Total reserves (exc gold):
$6,369.2m (88); $6,417.5m (87)
Principal exports:
industry products 33.2%;
metals and engineering 31.0%; chemicals 9.0%
wood industry prod 8.2%
Main export markets:
USSR 14.9%; Sweden 14.1%;
UK 13.0%; US 5.8%;
W.Germany 10.8%;
EFTA 20.6%;
CMEA 16.6%; EC 44.2%
Principal imports:
raw materials 49.7%;
consumer goods 23.1%;
investment goods 18.4%;
fuels 8.1%
Main import markets:
W.Germany 16.9%;
Sweden 13.3%; UK 6.8%
USSR 12.1%; US 6.3%
EFTA 18.9%; CMEA 14.7%;
EC 43.5%
Currency:
1 markka (FM) = 100 penni
1988 average exchange rates: $ = FM4.19; £ = FM7.47
Current exchange rates
(Dec 89): $ = FM4.15; £ = 6.60



FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
00 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	55.70	56.28	59.88	4.58	40000
Gilts & Fixed Inc	6	107.10	107.30xd	113.10	8.80	40001
High Inc Equity	6	136.30	136.30	145.60	4.33	40002
Worldwide Bond	6	208.30	208.30xd	220.7	4.00	40003
Capital Growth						
American Growth	6	201.80	203.60	216.70	1.01	40004
Asian Pacific	6	120.40	122.80xd	130.70	0.90	40005
Assets & Earnings	6	157.10	157.10xd	168.18	2.20	40006
Capital Reserve Acc	0	08.36	88.36	88.53	6.70	40007
Capital Reserve Inc	0	78.42	78.42	78.57	7.64	47580
Comdty & Energy	6	118.40	118.40	126.70	1.50	40008
Dividend & Growth	6	47.14	97.48	50.43	4.46	—
1992 Enterprise	6	62.73	64.04	68.13	2.44	46597
Euro Capital Acc	6	100.70	101.50	160.00	0.69	40009
Euro Capital 04	6	97.05	97.60	104.10	0.72	47581
General	6	179.60	179.60	192.10	2.60	40010
International	6	60.99	61.83	66.70	0.76	46852
Japan	6	128.18	130.40	138.86	0.00	40011
Mastertrust	6	94.34	94.34	100.40	1.69	40012
UK Growth Acc	6	178.70	178.70	191.20	1.60	40013
UK Growth Dist	6	118.60	118.60	126.30	2.52	40014
US Emerging Cos	6	54.20	55.69	54.33	0.00	40015
Income & Growth	6	306.90	306.90xd	328.30	3.12	40016
Ethical	6	47.15	47.15	50.43	1.96	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 [illegible] 590

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Amer Inc & Growth	5¼	33.95	33.40	36.22	2.96	[illegible]
European	5¼	79.16	79.29	84.64	0.60	[illegible]
European Income	5¼	76.52	76.52xd	81.69	2.10	[illegible]
Exempt	1	784.2	784.2	815.6	1.63	[illegible]
Extra Income	5¼	44.00	44.00xd	46.98	4.26	[illegible]
F East Emerg Ecos	5¼	64.59	64.95	69.36	0.09	[illegible]
Fund Inv Tst	5	133.0	136.4	145.6	1.66	[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set, unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ● - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ◆ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + two digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Wardley Unit Tst Mngrs Ltd (0900)H						
3 Harbour Exchange, London, E14 9GJ						[illegible]
American ♦	5¼	73.36	73.36	78.45	[illegible]	[illegible]
Intl Growth ♦	5¼	85.85	85.85	91.81	[illegible]	[illegible]
Income ♦	5¼	130.3	130.1	139.1	[illegible]	[illegible]
Japan Growth ♦	5¼	256.2	256.2	274.0	[illegible]	[illegible]
Pacific Perf ♦	5¼	169.7	169.7	181.4	[illegible]	[illegible]
Small Co's ♦	5¼	129.2	129.2	138.1	[illegible]	[illegible]
Technology	5¼	33.97	33.97	36.33	[illegible]	[illegible]
Australia	5¼	64.80	64.80	69.30	[illegible]	[illegible]
UK Trust ♦	5¼	176.3	176.3	188.5	[illegible]	[illegible]
European Growth ♦	5¼	76.93	76.93	82.25	[illegible]	[illegible]
Hong Kong ♦	5¼	55.44	55.44	57.90	[illegible]	[illegible]
Intl Income	5¼	22.50	22.50	24.06	[illegible]	[illegible]
Spec & China Sit	5¼	38.69	38.69	41.37	[illegible]	[illegible]
British Winners ♦	5¼	26.36	26.36	28.19	[illegible]	[illegible]
Japan Smllr Cos ♦	5¼	31.44	31.44	33.62	[illegible]	[illegible]
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh						031-225 1551
Australasian Gold	6	16.17	16.26	17.28	0.00	41588
Pacific Basin	6	32.45	32.45	33.45	0.40	41589
Can Balncd Gwth ♦	4	49.31	49.31	52.45	8.64	41590
Gamble Man ♦	4	0.9766	0.9766	1.0205	7.59	41591
Penny Share	4	28.44	28.44	30.25	0.50	41592
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1						01-407 4404
Wellington Income	5¼	140.9	142.7	151.8	4.80	41593
Wellington Growth	5¼	231.1	233.2	248.1	1.18	41594
Wessex Asset Management (1330)F						
1 Richmond O Hl, Bournemouth BH2 6HW						0202 294432
Wessex UK Gwth	4½	112.5	114.9	119.7	4.03	41595
Whittingdale Unit Tst Mngmt Ltd						
2 Honey Lane, London EC2V 8BT						01-606 3132
Challenger A F	2¼	62.65	62.65xd	64.24	0.00	41596
Short Dtd Gilt 9 F	1½	82.45	82.45	83.56	6.44	41597
U.S. Govmt Bond + F	1½	5.5796	.5796xd	.5872	0.00	41598
Wilfbro Financial Services Ltd (0985)F						
PO Box 515, 6 Broadgate, London EC2						01-588 7511

	Bid Price	Offer Price	Yield Gross
AEtna Life Insurance Co Ltd—Contd.			
Pension Funds (Accumulation Units)			
Squirrel	15.79	16.63	—
Bear	17.22	18.13	—
Owl	22.87	24.08	—
Bull	20.68	21.77	—
Stag	20.08	21.14	—
Gilt Edged		13.86	—
Deposit		13.59	—
North American	10.97	11.55	—
European	11.81	12.44	—
Property	12.02	12.66	—
Index-Linked	11.87	12.50	—
Far Eastern	15.17	15.97	—
UK Equity	15.78	16.62	—
Fixed Interest	12.11	12.75	—
Gilt Edged (09)	10.02	10.55	—
1982 Series			
Managed	298.68	314.41	—
Pre 1982 Series			
Aetna Life			
3 Way	706.57	706.58	—
Equity Pensions	1237.05	1237.84	—
Aetna Pensions Ltd			
3-Way Managed	641.65	641.65	—
Exempt Approved			
Mixed Managed	220.56	225.07	—
Gilt Edged		13.86	—
Albany Life Assurance Co Ltd			
3 Darkes Lane, Potters Bar EN6 1AJ			0707 [illegible]
Life Funds			
Brit Blue Chip Fd Acc(z)	146.0	153.6	—
Equity Fd Acc(z)	1070.1	1126.3	—
European Fd Acc(z)	280.7	295.5	—
Intl Fxd Int Fd Acc(z)	215.4	226.71	—
Fixed Int Acc(z)	348.6	366.9	—
Gtd Money Fd Acc(z)	244.6	257.4	—
High Income Fd Acc(z)	120.0	127.1	—
Intl Man Fd Acc(z)	437.5	460.8	—
Japan Fd(z)	322.4	338.3	—

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (**)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (**)

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(86.6)	134	9.95	19 6	25 Jul 25 Jan	1311
1,400	Exch 11pc 1990‡‡	99	14.92	12.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	99	14.56	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	96	12.14	2.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987–90‡‡	97	13.91	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	96	13.89	11.12	16 Jul 16 Jan	4680
1,887	Treas. 10pcCv 1990	96	13.69	18.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	93	10.53	16.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	98	15.57	4.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87–91‡‡	92	11.94	1.9	5 Oct 5 Apr	1275
400	Treas 3pc 1991	90	10.42	9.10	11 Nov 11 May	1326
646	Treas 10pc Cv '91 ‡‡	95	13.04	6 12	12 Jan 12 Jul	1280
1,550	Exch. 11pc 1991	97	12.79	18.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	92	12.64	3.11	10 Jun 10 Dec	[illegible]
900	Treas 12¾pc 1992‡‡	100	12.32	15.6	22 Jul 22 Jan	[illegible]
1,600	Treas 10pc 1992	95	12.29	17.7	21 Aug 21 Feb	[illegible]
1,400	Treas. 8pc 1992 ‡‡	91	12.21	6 9	13 Oct 13 Apr	[illegible]
1,288	Treas 10½pc Cv 1992‡‡	97	12.81	2.10	7 Nov 7 May	[illegible]
[illegible]	Treas. 3pc 1992	84	10.26	6.11	11 Dec 11 Jun	[illegible]
[illegible]	Exch. 12¼pc '92	100	12.02	19.7	25 Feb 25 Aug	[illegible]
[illegible]	Treas 13½pc 1992	103	11.84	31.8	22 Mar 22 Sep	[illegible]
[illegible]	Treas. 8¼pc 1993	91	11.66	12.7	18 Aug 18 Feb	[illegible]
[illegible]	Treas 10pc 1993‡‡	96	11.49	8.9	15 Oct 15 Apr	[illegible]
[illegible]	Treas 12½pc 1993‡‡	102	11.59	8 12	14 Jan 14 Jul	[illegible]
[illegible]	Funding 6pc 1993‡‡	85	10.80	9.8	15 Mar 15 Sep	[illegible]
[illegible]	Treas 13¾pc 1993‡‡	107	[illegible]	17.10	23 May 23 Nov	[illegible]
[illegible]	Treas. 8½pc 1994	90	[illegible]	27.6	3 Aug 3 Feb	–
[illegible]	Treas 14½pc 1994‡‡	110	[illegible]	26.7	1 Sep 1 Mar	1307
[illegible]	Exch 13½pc 1994	107	[illegible]	20.9	27 Oct 27 Apr	1267
[illegible]	Treas. 10pc Ln. 1994‡‡	95	[illegible]	2.11	9 Dec 9 Jun	1284
[illegible]	Exch. 12¼pc 1994	104	[illegible]	17 7	22 Feb 22 Aug	1263
[illegible]	Treas 9pc 1994‡‡	92	[illegible]	1.10	17 May 17 Nov	1345

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,350	Treas 12pc 1995	102	[illegible]	19.6	25 Jul 25 Jan	[illegible]
229	Exch 3pc Gas 90–95	76	[illegible]	25.9	1 Nov 1 May	[illegible]
2,100	Exch. 10¼pc 1995	96	[illegible]	15 12	21 Jan 21 Jul	[illegible]
1,000	Treas 12¾pc 1995‡‡	107	[illegible]	9.10	15 May 15 Nov	[illegible]
900	Treas. 14pc '96	111	[illegible]	15.6	22 Jul 22 Jan	[illegible]
750	Treas 9pc 1992–96‡‡	91	[illegible]	9 8	15 Sep 15 Mar	[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,881	Conversion 9½pc 2005	96	10.01	11.9	18 Oct 18 Apr	1247
1,050	Exch. 10½pc 2005	103	10.00	14.8	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003–05	117	10.19	16 10	21 May 21 Nov	1295
1,800	Treas. 8pc 2002–06‡‡	84	9.92	10.11	5 Apr 5 Oct	1334
3,150	Treas. 11¾pc 2003–07	118	10.21	15 6	22 Jul 22 Jan	1293
1,446	Treas 8½pc 2007 ‡‡	89	9.77	11.12	16 Jan 16 Jul	1339
1,250	Treas. 13½pc '04–08	125	10.11	21 8	26 Sep 26 Mar	1301
–	Treas. 9pc 2008 ‡‡	93	9.70	6.9	13 Apr 13 Oct	1343
721	Treas. 9pc 2008 B	93	9.70			–
1,000	Treas 8pc 2009	85	9.67	21.8	25 Mar 25 Sep	1336
369	Conv 9pc Ln 2011 ‡‡	94	9.36	6.12	12 Jan 12 Jul	1245
1,000	Treas. 5½pc 2008–12‡‡	63	9.47	4 8	10 Mar 10 Sep	1330
700	Treas. 7¾pc 2012–15‡‡	82	9.61	19 6	26 Jul 26 Jan	1332
1,000	Exch. 12pc '13–17	121	9.67	6.11	12 Jun 12 Dec	1260

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	40	–	26 6	1 Feb 1 Aug	1239
1,909	War Loan 3½pc‡‡	36	–	25.10	1 Jun 1 Dec	1352
140	Conv. 3½pc '61 Aft.	61	–	25 8	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft.	32	–	1.9	5 Apr 5 Oct	1324
276	Consols 2½pc	25	–	1.12	5 Ja Ap Jul O	1238
475	Treas. 2½pc	25	–	25.8	1 Apr 1 Oct	1315

Index-Linked

Amount £m	Stock	Price £	Red. Yld. (1) (b)	Last xd	Interest Due	City-line
650	Tr. 2pc '92‡‡(97.8)	111	4.11	17 8	23 Mar 23 Sep	1312
400	Do. 2'94 (102.9)	104	3.44	10.10	16 Nov 16 May	–
1,000	Do. 2pc '96(67.9)	155	3.36	10.8	16 Mar 16 Sep	1313
900	Do 2½pc '01(78.3)	130	3.63	18 8	24 Mar 24 Sep	1316
800	Do. 2½pc '03(78 8)	127	3.67	16.10	20 Nov 20 May	1317
1,200	Do. 2pc '06(69 5)	138	3.67	13 12	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	122	3.66	16.10	20 Nov 20 May	1318
1,350	Do. 2½pc '11(74 6)	127	3.64	17.7	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	106	3.60	10.7	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	114	3.57	19 6	26 Jan 26 Jul	1321
1,400	Do 2½pc '20(83.0)	112	3.51	11 9	16 Oct 16 Apr	1322
900	Do. 2½pc '24‡‡(97.7)	94	3.45	11.12	17 Jan 17 Jul	1323

(1) Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for April 1989 114.3 and for November 1989 118.5

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.) — Contd.

[illegible]

INSURANCES

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

Finance, Land, etc

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

WATER

For Water Issues see London Recent Equities

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES — Contd

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ☆ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ¶ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: ǂ ex dividend; ε ex scrip issue; ≠ ex rights; ≡ ex all; ♦ ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials

[illegible]

Property

[illegible]

Oils

[illegible]

Mines

[illegible]

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

POUND SPOT- FORWARD AGAINST THE POUND

Dec.15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5995 - 1.6090	1.6040 - 1.6050	0.86-0.84cpm	6.36	2.51-2.48pm	6.22
Canada	1.8600 - 1.8880	1.8615 - 1.8625	0.48-0.40cpm	2.84	1.34-1.20pm	2.73
Netherlands	3.11¼ - 3.14½	3.11¼ - 3.12½	1⅞-1⅝cpm	6.73	4⅞-4⅝pm	6.17
Belgium	58.05 - 58.60	58.25 - 58.35	26-24cpm	5.15	71-67pm	4.73
Denmark	10.73 - 10.81¼	10.73¾ - 10.74¾	2⅞-2½orepm	3.00	7⅞-7¼pm	2.82
Ireland	1.0470 - 1.0575	1.0505 - 1.0515	0.34-0.29cpm	3.60	0.88-0.78pm	3.16
W. Germany	2.76 - 2.78¼	2.76 - 2.76½	1¾-1⅝pfpm	7.33	4⅝-4½pm	6.61
Portugal	242.75 - 244.30	242.80 - 243.80	60-127cdis	-4.61	211-332dis	-4.46
Spain	178.30 - 180.30	178.70 - 179.00	7-17cdis	-0.81	30-45dis	-0.84
Italy	2064 - 2074¼	2064 - 2065	4-2lirepm	1.74	10-8pm	1.74
Norway	10.66¼ - 10.73	10.67¼ - 10.68¼	2⅞-2¼orepm	3.02	7¼-6⅞pm	2.67
France	9.44¼ - 9.51½	9.44¼ - 9.45¼	3⅞-3¼cpm	4.84	10⅞-10¼pm	4.34
Sweden	10.01½ - 10.06¼	10.01½ - 10.02½	3¼-3orepm	3.74	7⅞-7¼pm	2.97
Japan	230¼ - 231½	230¼ - 231¼	1¾-1⅝ypm	8.82	4⅝-4½pm	0.11
Austria	19.43 - 19.59	19.43 - 19.46	10¼-8⅝grospm	5.82	30¼-24¾pm	5.66
Switzerland	2.48 - 2.49½	2.48 - 2.49	1⅞-1¾cpm	9.31	4⅛-3⅞pm	6.44
ECU	1.3650 - 1.3720	1.3650 - 1.3660	0.49-0.46cpm	4.17	1.35-1.30pm	3.88

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 58.20-58.30 Six-month forward dollar 4.94-4.89cpm 12 months 8.99-8.89cpm

MONEY MARKETS

Dealers look for a much calmer week

Following the excitement of last week, when the D-Mark at one stage pushed the US dollar to its lowest level since May 1988, the currency markets are likely to be a calmer place as Christmas approaches.

UK clearing bank base lending rate 15 per cent from October 5

"We're not looking for fireworks in the foreign exchange market this week, but rather a period of consolidation," Mr David Walton, international economist at Goldman Sachs, said. But with the markets so thin before Christmas, any shocks could have an exaggerated effect on rates.

The Federal Reserve's Open Market Committee meets tomorrow and Wednesday and is likely to follow the Bundesbank's lead last week and leave monetary policy unchanged. Despite recent economic data have pointed to a slower pace of growth, but seasonal factors which distort the money market in December will probably tempt the Fed to follow past precedent and leave the credit markets to their own devices this week.

Mr Anthony Thomas, senior economist at Kleinwort Benson, said: "Christmas is always a tricky time of year for the Fed to influence market rates. So while I think the Fed will ease, it's likely to be done cautiously next year. After all, it's still walking a tightrope between inflation and recession."

One major unknown is the impact that the political upheavals in Eastern Europe will have on the D-Mark. The action last week in the currency markets was dominated by the West German unit, which put the dollar onto the defensive.

But by the weekend dealers said that the D-Mark had risen too far, too quickly, though few of them appeared to be sellers of the West German unit. Instead, the D-Mark seems set for a week of consolidation, with the uncertainty surrounding Eastern Europe keeping it underpinned.

So with tha market praoccupied more with Christmas than the dollar, observers predict currencies holding in a narrow range. Mr Walton said if the dollar held above DM1.72, it should trade this week between that level and DM1.75, while Mr Thomas predicted a range of DM1.70 to DM1.74.

STERLING INDEX

		Dec.15	Previous
8.30	am	86.7	86.6
9.00	am	86.7	86.6
10.00	am	86.7	86.6
11.00	am	86.7	86.7
Noon		86.8	86.7
1.00	pm	86.7	86.6
2.00	pm	86.7	86.6
3.00	pm	86.7	86.5
4.00	pm	86.6	86.5

£ IN NEW YORK

Dec.15	Close	Previous Close
£ Spot	1.6025-1.6035	1.6010-1.6020
1 month	0.85-0.84pm	0.85-0.84pm
3 months	2.50-2.47pm	2.54-2.51pm
12 months	8.95-8.87pm	8.95-8.85pm

Forward premiums and discounts apply to the US dollar

CURRENCY RATES

Dec.15	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling §	-	1.22916	1.36960
U.S Dollar	7	1.30211	1.17004
Canadian $	12.46	1.51370	1.35830
Austrian Sch.	6½	15.9053	14.2944
Belgian Franc	10¼	47.5661	42.7007
Danish Krone	10½	8.78599	7.89077
Deutsche Mark	6.00	2.26059	2.02979
Neth.Guilder	7.00	2.55214	2.29141
French Franc	10¼	7.72802	6.94128
Italian Lira	13½	1686.47	1518.42
Japanese Yen	3¼	187.634	168.545
Norway Krone	8	8.72414	7.83285
Spanish Peseta	-	146.218	131.443
Swedish Krona	9½	8.16293	7.34787
Swiss Franc	6.00	2.03064	1.82000
Greek Drach.	20½	207.518	187.371
Irish Punt	-	0.85632	0.769461

§ Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Dec.14

CURRENCY MOVEMENTS

Dec.15	Bank of England Index	Morgan** Guaranty Changes %
Sterling	86.6	-24.3
U.S Dollar	67.9	-10.2
Canadian Dollar	105.1	+2.1
Austrian Schilling	109.9	+12.1
Belgian Franc	109.2	-3.3
Danish Krone	108.5	+2.8
Deutsche Mark	118.7	+25.3
Swiss Franc	107.5	+15.4
Guilder	114.4	+16.3
French Franc	102.9	-13.3
Lira	99.5	-18.9
Yen	131.7	+62.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Dec.14.

OTHER CURRENCIES

Dec.15	£	$
Argentina	1596.95 - 1614.05	995.00 - 1005.00
Australia	2.0490 - 2.0510	1.2765 - 1.2775
Brazil	1295.40 - 1302.80	8.0710 - 8.1120
Finland	6.5485 - 6.5685	4.0890 - 4.0910
Greece	254.25 - 258.75	158.65 - 161.40
Hong Kong	12.5285 - 12.5415	7.8070 - 7.8090
Iran	112.10*	71.20*
Korea(Sth)	1070.75 - 1088.00	671.80 - 677.00
Kuwait	0.47420 - 0.47530	0.29600 - 0.29650
Luxembourg	58.25 - 58.35	36.30 - 36.40
Malaysia	4.3270 - 4.3380	2.6960 - 2.7010
Mexico	4278.65 - 4296.05	2665.00 - 2675.00
N. Zealand	2.7015 - 2.7075	1.6835 - 1.6865
Saudi Ar.	6.0075 - 6.0130	3.7500 - 3.7510
Singapore	3.0750 - 3.0835	1.9150 - 1.9200
S. Af (Cm)	4.1050 - 4.1235	2.5500 - 2.5550
S. Af (Fn)	6.2470 - 6.3715	3.8910 - 3.9685
Taiwan	42.05 - 42.15	26.20 - 26.25
U.A.E.	5.8825 - 5.8880	3.6720 - 3.6730

*Selling rate

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6045	1.5960	1.5796	1.5554	1.5151

IMM-STERLING $s per £

	Close	High	Low	Prev.
Dec	1.6044	1.6120	1.6006	1.5992
Mar	1.5790	1.5850	1.5750	1.5742
Jun	1.5546	1.5600	1.5530	1.5502

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 36.25-36.35.

EXCHANGE CROSS RATES

Dec.15	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]										

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Dec 15	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]						

Long term Eurodollars: two years 8⅛-8⅛ per cent; three years 8⅛-8¼ per cent; four years 8⅛-8¼ per cent; five years 8⅛-8⅜ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.15)	3 months US dollars		6 months US Dollars	
	bid 8¼	offer 8⅜	bid 8⅛	offer 8¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

[illegible]			

Dec.15	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.45-7.55	7.80-7.95	7.85-8.00	7.85-8.00	7.95-8.10	8.00
Paris	10⅞-10⅛	10¼-10½	10⅞-10⅛	10⅝-10¾	10⅝-10¾	9.50
Zurich	7⅛-7¾	8½-8¾	-	8¾-8⅝	-	-
Amsterdam	8.38-8.50	8.43-8.53	-	8.40-8.52	-	-
Tokyo	6⅛-6⅞	6⅝-6⅞	-	6⅝-6⅞	-	-
Milan	12¼-12⅞	12⅞-13¼	-	12⅞-13¼	-	-
Brussels	10.25	10⅛-10⅞	-	10⅛-10¼	-	-
Dublin	10¼-10⅞	11⅛-11⅞	11⅞-11⅞	11⅞-11⅞	12-12⅛	-

LONDON MONEY RATES

Dec 15	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	16	15¼	15⅞	15⅞	15⅛	14⅞
Interbank Bid	13	14⅞	15⅛	15⅛	14⅞	14⅞
Sterling CDs	-	-	15⅛	15⅛	14⅞	14½
Local Authority Deps.	15⅛	15⅛	15⅛	15⅛	14⅞	14½
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15⅛	15	14⅞	14⅝	-	-
Company Deposits	-	-	15⅛	15⅛	15	14⅝
Finance House Deposits	-	-	15⅛	15⅛	14⅞	14⅝
Treasury Bills (Buy)	-	-	14⅞	14½	-	-
Bank Bills (Buy)	-	-	14⅞	14⅞	13⅞	-
Fine Trade Bills (Buy)	-	-	15⅞	15⅞	14⅞	-
Dollar CDs	-	-	8.80	8.48	8.30	8.20
SDR Linked Dep. Offer	-	-	9⅛	9⅛	9	8⅞
SDR Linked Dep. Bid	-	-	8⅞	8⅞	8¾	8⅞
ECU Linked Dep. Offer	-	-	11	11	11	10⅞
ECU Linked Dep. Bid	-	-	10⅞	10⅞	10⅞	10⅞

Treasury Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Bank Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills; Average tender rate of discount 114.4838 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day November 30 1989. Agreed rates for period December 26 1989 to January 23, 1990, Scheme I: 15.87 p.c., Schemes II & III: 16.43 p.c. Reference rate for period Nov.1,1989 to November 30, 1989, Scheme IV&V: 15.148 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from December 1, 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9,1989, Deposits withdrawn for cash 5 per cent.

BANK OF ENGLAND TREASURY BILL TENDER

	Dec.15	Dec.8		Dec.15	Dec.8
Bills on offer	£300m	£300m	Top accepted rate of discount	14.4997%	14.5198%
Total of applications	£1096m	£1401m	Average rate of discount	14.4838%	14.4976%
Total allocated	£300m	£300m	Average yield	15.0264%	15.0413%
Minimum accepted bid	£96.385	£96.380	Amount on offer at next tender	£300m	£300m
Allotment at minimum level	38%	36%	Minimum accepted bid 182 days	£93.110	£93.065

WEEKLY CHANGE IN WORLD INTEREST RATES

	Dec.15	change		Dec.15	change
[illegible]					

CHICAGO

	Close	High	Low	Prev.
[illegible]				

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY DECEMBER 15 1989: US Dollar Index	% change since Dec.30 '88	Pound Sterling Index	Local Currency Index	% change local currency since Dec.30 '88	Gross Div. Yield	THURSDAY DECEMBER 14 1989: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1989 High	1989 Low	Year ago (approx)
Australia (85)	146.79	+1.6	135.64	124.86	+10.7	3.45	146.84	136.13	124.21	160.41	128.26	139.69
Austria (18)	167.67	+74.6	154.93	150.15	+69.4	1.62	167.04	155.07	150.70	172.22	92.84	98.81
Belgium (63)	149.79	+10.8	138.41	134.09	+7.6	4.15	149.18	138.50	134.43	150.39	125.58	132.44
Canada (122)	152.20	+21.2	140.64	127.90	+17.9	3.15	152.24	141.33	128.15	154.17	124.67	120.78
Denmark (38)	236.99	+39.1	218.98	215.79	+35.7	1.46	234.46	217.66	214.65	237.06	165.35	181.64
Finland (26)	130.89	+0.0	120.95	112.35	-1.7	2.51	130.74	121.37	112.55	159.16	116.83	121.73
France (126)	150.09	+30.5	138.68	138.61	+26.8	2.69	149.21	138.52	139.03	150.60	112.57	108.94
West Germany (96)	112.19	+27.5	103.66	100.46	+23.8	2.08	111.44	103.45	100.63	112.97	79.56	86.35
Hong Kong (48)	120.56	+7.8	111.40	120.85	+8.1	4.72	120.74	112.08	120.64	140.33	96.41	103.94
Ireland (17)	178.12	+35.2	164.58	164.25	+33.1	2.65	179.42	166.57	166.18	179.42	125.00	132.14
Italy (87)	96.14	+12.9	88.84	92.39	+11.3	2.48	94.73	87.95	91.84	96.73	74.97	82.96
Japan (455)	197.07	+2.9	182.09	179.50	+18.8	0.45	196.96	182.64	179.34	200.11	164.22	165.26
Malaysia (36)	219.47	+53.0	202.89	228.20	+52.4	2.33	218.85	204.10	228.49	218.85	143.35	149.85
Mexico (13)	302.51	+87.0	279.65	293.48	+118.3	0.59	302.41	280.75	299.41	326.81	153.32	165.65
Netherland (43)	138.69	+23.5	128.33	123.22	+18.8	4.32	138.71	128.79	124.18	139.47	110.63	110.18
New Zealand (18)	71.09	+5.2	65.69	63.61	+11.8	5.62	69.88	64.87	62.34	88.18	62.64	64.81
Norway (24)	193.29	+39.1	178.60	174.60	+41.0	1.58	193.54	179.68	175.75	198.39	139.92	131.87
Singapore (26)	174.26	+39.3	161.02	153.68	+37.4	1.95	176.24	163.61	155.29	176.24	112.05	119.34
South Africa (60)	185.50	+59.7	172.43	160.26	+63.1	3.55	185.12	171.56	159.00	188.04	115.35	118.16
Spain (43)	162.32	+9.4	149.98	137.38	+7.6	3.83	162.17	150.55	138.03	169.75	143.14	148.28
Sweden (35)	185.20	+26.1	171.13	171.21	+30.8	2.00	182.73	169.64	169.75	188.94	139.45	144.19
Switzerland (62)	92.08	+17.9	85.08	86.42	+21.6	2.02	91.59	85.03	86.79	94.18	67.81	76.29
United Kingdom (303)	153.08	+13.1	141.45	141.45	+27.5	4.39	153.77	142.75	142.75	158.41	133.28	133.61
USA (544)	141.75	+25.2	130.98	141.75	+25.2	3.30	142.18	131.98	142.18	146.29	112.13	112.44
Europe (990)	136.35	+18.8	125.99	124.36	+23.7	3.36	136.09	126.34	124.95	136.56	112.63	112.35
Nordic (121)	181.98	+30.3	168.13	180.13	+30.0	1.79	180.12	167.21	189.36	181.95	137.95	135.39
Pacific Basin (668)	192.15	+3.1	177.55	174.97	+18.2	0.89	192.04	179.28	174.60	194.72	160.44	160.35
Euro-Pacific (1658)	169.96	+7.8	157.04	154.73	+18.7	1.57	169.78	157.61	154.86	170.01	141.66	133.14
North America (666)	142.27	+25.0	131.46	140.88	+24.6	3.29	142.65	132.44	141.28	146.86	112.79	112.87
Europe Ex. UK (687)	124.94	+23.0	115.44	113.94	+20.7	2.71	124.17	115.27	114.13	124.94	96.30	96.89
Pacific Ex. Japan (213)	133.32	+7.0	123.16	118.14	+11.7	4.85	133.20	123.66	118.79	140.05	111.93	120.59
World Ex. US (1853)	169.58	+8.8	156.69	154.11	+20.1	1.64	169.40	157.26	154.23	169.67	141.49	161.87
World Ex. UK (2094)	159.13	+13.6	147.04	150.78	+21.1	1.94	159.09	147.70	150.87	159.46	136.88	136.68
World Ex. So. Af. (2337)	158.44	+13.3	146.36	149.60	+21.4	2.14	158.44	147.09	150.02	158.84	136.87	136.69
World Ex. Japan (1942)	140.30	+22.3	129.64	134.57	+24.2	3.39	140.40	130.34	135.00	140.89	114.51	113.10
The World Index (2397)	158.57	+13.5	146.52	149.86	+21.8	2.15	158.80	147.23	150.06	159.01	136.68	136.57

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

CONSTITUENT CHANGE: Deletion: Jeguar (UK)(13/12/89).

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 90 Vol	Last	May 90 Vol	Last	Aug. 90 Vol	Last	Stock
[illegible]								

TOTAL VOLUME IN CONTRACTS: 41,959
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	15	Co-operative Bank	*15	Northern Bank Ltd	15
Adam & Company	15	Coutts & Co	15	Norwich Gen. Trust	15
Allied Trust Bank	15	Cyprus Popular Bk	15	Nykredit Mortage Bank	15½
Allied Irish Bank	15	Dunbar Bank PLC	15	PRIVATbanken Limited	15
● Henry Ansbacher	15	Duncan Lawrie	15	Provincial Bank PLC	16
Associates Cap Corp	14	Equatorial Bank plc	15	R. Raphael & Sons	15
Authority Bank	15	Exeter Trust Ltd	15½	Roxburghe G'antee	15½
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Bk of Scotland	15
Bank of Baroda	15	First National Bank Plc	16	Royal Trust Bank	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	● Smith & Williamson Secs.	15
Bank Hapoalim	15	Robert Fraser & Ptnrs.	15½	Standard Chartered	15
Bank Credit & Comm	15	Girobank	15	TSB	15
Bank of Cyprus	15	● Guinness Mahon	15	United Bk of Kuwait	15
Bank of Ireland	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of India	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Bank of Scotland	15	Hampshire Trust Plc	15½	Western Trust	15
Banque Belge Ltd	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Barclays Bank	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Beachmark Bank PLC	15	C. Hoare & Co.	15	Yorkshire Bank	15
Brit Bk of Mid East	15	Hongkong & Shangh	15		
● Brown Shipley	15	● Leopold Joseph & Sons	15		
CL Bank Nederland	15	Lloyds Bank	15		
● Charterhouse Bank	15	McDonnell Douglas Bnk	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	Midland Bank	15		
Clydesdale Bank	15	Mount Banking	15		
Comm. Bk N. East	15	Nat Bk. of Kuwait	15		
		NatWestminster	15		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Sumwise 8.5%. Top Tier-£10,000 + instant access 12.8% ‡ Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.95%.

JOTTER PAD

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1989 High	Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

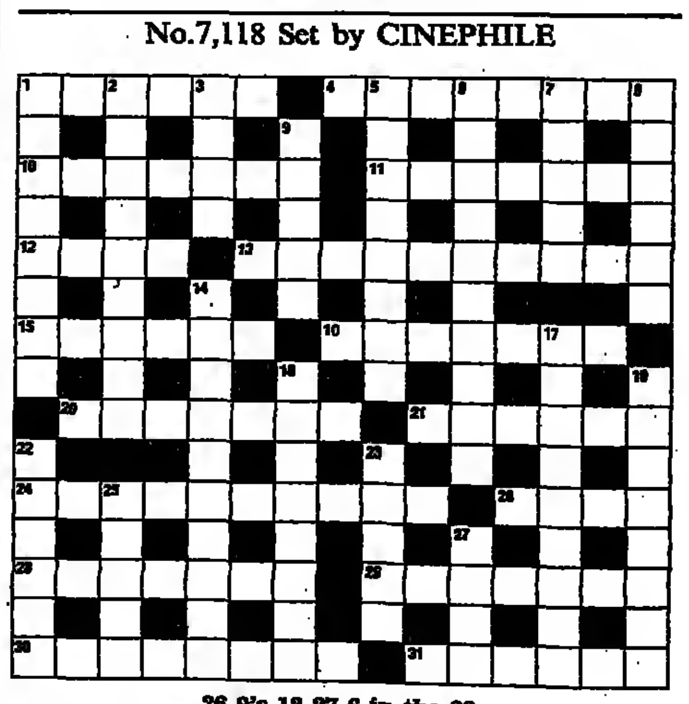
Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	Low	Stock	Closing Price £	+ or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	Low	Stock	Closing Price p	+ or -
[illegible]							

CROSSWORD

No.7,118 Set by CINEPHILE



26 9's 12 27 6 in the 23

ACROSS
1, 26 Sherwood forester's wee wee place (6,4)
4 Pudding, excellent fake? (4,4)
10 £5 split into £5 note for jalopy (7)
11 Time for drink with favourite, a brassy piece (7)
12, 18 Dancer shot by wandering resurrectionist (4-8)
13 Used bad language about theologian leading banned organisation, a dangerous movement? (5,5)
15 Introduction to field row (4-2)
16 She takes parts of anumber with a lock (7)
20 Rustic vegetables with insect (7)
21 Complete home policy? (6)
24 Exaggerated picture of chartered accountant, possibly a recruit (10)
26 See 1 across
28 Solution for problematic lights? Nonsense! (7)
29 Upset natives are of least use (7)
30, 31 Adventure story arousing natural desires (8,6)

DOWN
1 Month (English) in rhythm with rubber ring (4-4)
2 Short Irish oath in the bottom grade? (5,4)
3, 27 Pretty girls, bleeding for an amaranth (8)
5 Ability to read new article at start of year (8)
6 Give shape to Ireland with string in decay (10)
7 Loosen loveless union that's without a bit of peace (5)
8, 6 Fictional detective has stout medicinal plant with right to possess (6,5)
14 Top grade trees for twin-carburettor girl (5,5)
17 Thus a church leader joins painter on TV (4,5)
18 See 12
19 Airport identifying Laurel and Heath? (8)
22 See 23
23, 22 Serious stress is placed upon French father or mother, for example (5,6)
25 Female bird concerned with woman (5)
27 See 3

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 30.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) Unavailable. (§) Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO

Closing prices December 15

Quotations in cents unless marked $.

[illegible]

MONTREAL

Closing prices December 15

[illegible]

Total Sales 1,021,000 shares.

INDICES

NEW YORK

DOW JONES	Dec 15	Dec 14	Dec 13	Dec 12	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2739.55	2753.63	2761.09	2752.13	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.37	93.45	93.45	93.40	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1170.70	1185.63	1203.41	1212.13	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	235.98	234.66	233.46	231.64	235.98 (15/12)	181.84 (24/2)	235.98 (15/12/89)	10.50 (8/4/32)

♦Day's High 2763.65 (2760.67) Low 2703.92 (2741.89)

STANDARD AND POOR'S

	Dec 15	Dec 14	Dec 13	Dec 12	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	350.14	350.93	352.75	351.73	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	399.91	400.56	403.07	402.71	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	30.90	31.37	31.57	31.56	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	193.45	193.97	195.01	194.44	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	375.50	376.82	378.05	377.41	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	443.84	447.48	451.14	450.43	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Dec 8	Dec 1	Nov 24	year ago (approx.)
Dow Industrial Div. Yield	3.90	3.87	3.97	3.71
	Dec 13	**Dec 6**	**Nov 29**	**year ago (approx.)**
S & P Industrial div. yield	2.90	2.92	2.96	3.15
S & P Indl. P/E ratio	14.92	14.82	14.59	12.86

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Bank New Eng	4,639,700	9	− 3⅛
Am T&T	3,970,900	46⅛	− ⅛
Exxon	3,277,200	50⅛	+ ½
Gen Electric	3,153,700	64¾	− ⅛
IBM	3,043,400	95	− ¾
Philip Morris	2,977,500	42¾	− ⅛
Fannie Mae	2,470,100	33¾	− ¾
Gen Motors	2,429,500	42½	− 1
Eastman Kodak	2,334,100	41	− ½
LA Gear Inc	2,241,700	25⅞	− ⅝

TRADING ACTIVITY

† Volume (Millions)	Dec 15	Dec 14	Dec 13
New York	240.390	178.700	184.660
Amex	14.044	14.497	15.234
NASDAQ	(u)	144.263	159.282
Issues Traded	1,994	2,003	2,006
Rises	616	519	785
Falls	897	1,002	726
Unchanged	481	482	495
New Highs	72	75	128
New Lows	89	87	55

CANADA

TORONTO	Dec 15	Dec 14	Dec 13	Dec 12	1989 HIGH	1989 LOW
Metals & Minerals	3346.51	3347.43	3332.81	3307.53	3919.2 (1/9)	3207.5 (3/1)
Composite	3986.20	3995.33	4005.76	4002.99	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2037.59	2042.66	2046.37	2038.94	2069.68 (10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common − 50; Standard and Poor's − 10; and Toronto Composite and Metals − 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 15	Dec. 14	Dec 13	Dec 12	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1619.1	1615.6	1615.2	1612.7	1791.8 (29/9)	1412.9 (7/4)
All Mining (1/1/80)	811.0	811.9	813.8	806.8	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	461.35	461.44	461.46	462.89	515.09 (11/10)	217.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6398.88	6420.37	6443.28	6466.51	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	358.05	357.17	355.38	354.95	360.93 (6/12)	275.49 (27/2)
FINLAND						
Unitas General (1975)	614.3	616.0	617.5	617.1	815.8 (18/4)	580.8 (23/11)
FRANCE						
CAC General (31/12/82)	546.1	546.8	551.8	549.4	561.6 (11/10)	417.9 (4/1)
Ind. Tendance (30/12/88)	126.1	126.6	126.7	127.0	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	684.25	685.73	685.57	693.14	700.14 (7/12)	535.78 (27/2)
Commerzbank (1/12/53)	2019.1	2020.9	2024.0	2046.0	2068.9 (7/12)	1595.1 (27/2)
DAX (30/12/87)	1627.43	1625.77	1638.54	1653.07	1664.08 (7/12)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2896.57	2876.75	2851.84	2809.58	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1748.96	1768.81	1750.24	1732.71	1848.95 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	680.40	675.66	664.04	663.97	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	38271.84	38180.70	38062.42	37803.53	38271.04 (15/12)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2874.56	2871.90	2878.46	2868.02	2879.02 (7/12)	2366.91 (6/1)
2nd Section (4/1/68)	3856.73	3841.54	3826.91	3803.87	3856.71 (15/12)	2774.38 (27/3)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	259.5	261.6	263.4	262.3	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	199.1	200.7	202.1	201.2	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	672.68	678.44	668.85	658.56	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1002.81	1062.54	1103.28	1162.21	1396.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1468.56	1467.98	1464.29	1454.81	1468.56 (15/12)	1030.69 (3/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2219.0	2180.0	2221.0	2254.0	2254.9 (12/12)	1291.0 (15/2)
JSE Industrial (28/9/78)	2810.0	2811.0	2819.0	2809.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	918.04	938.10	915.72	879.46	1007.80 (3/4)	844.75 (11/12)
SPAIN						
Madrid SE (30/12/85)	303.25	303.00	303.03	303.35	328.93 (13/9)	266.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4168.8	4151.8	4156.0	4110.8	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	754.4	758.6	760.6	765.3	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	8568.45	8437.87	8619.41	8339.40	10773.11 (25/9)	4373.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	827.81	834.70	832.10	822.07	834.70 (14/12)	386.75 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	569.8	562.5	559.3	562.5 (13/12)	487.6 (13/6)

**Saturday Dec. 9: Taiwan Weighted Price: 8408.17 Korea Comp Ex. 850.02.
♦ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX − 1,000, JSE Gold − 255.7, JSE Industrials − 264.3 and Australia All Ordinary and Mining − 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday December 15 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Mtl	28.9m	909	-3	Mitsubishi Cp	17.6m	1,970	+70
Tokyu Corp	25.2m	3,000	+30	C.Itoh	18.9m	1,150	+20
Nippon Paint	23.0m	1,270	+80	Nippon Steel	16.7m	829	+15
Mitsui M A M	20.6m	980	+5	Mitsui & Co	15.1m	1,340	+30
Dowa Mining	19.6m	1,430	+200	Honshu Paper	14.7m	1,419	+50

AMEX COMPOSITE PRICES

4pm prices December 15

[illegible]

4pm prices December 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
37½	20	A Wr	.48	1.4	16	175	35⅛	35	60	
9⅝	8⅝	ACM Op	1.01	11.		231	9⅛	9½	9⅛	+ ⅛
11⅛	10¾	AC Min	1.26	11.		455	11⅛	11	11⅛	
15	8	AC M M	n1.01	11.		940	9	8⅞	9	+ ⅛
11½	10	AC 8 Sc	1.26	11.		1161	11⅛	11	11	- ⅛
9⅝	8⅝	ACM Sp	1.01	11.		484	9⅛	9⅝	9⅛	
18	11½	AL Lab	.16	.8	16	16	17½	17⅜	17⅜	
4⅛	3⅛	AMC A	.12e	3.6	8	37	3½	3⅜	3⅜	- ⅛
8⅛	4⅞	AM L 10			9	759	4½	4⅜	4⅜	
28½	10½	AM In pf	2	11.		20	18⅞	18⅝	18⅞	+ ⅛
107⅛	21½	AMR			7	7868	63⅛	58⅛	60⅛	-3⅛
9½	3⅜	ARX				217	3⅞	3⅛	3⅞	
58⅛	27⅞	ASA	3a	8.2		1593	58⅛	57	37⅛	+ ⅞
30⅛	13⅝	AVX	.24	.8	20	3990	u30½	28⅛	30⅜	
13⅞	40⅝	AbtLab	1.40	2.1	10	9582	20⅞	64⅝	65⅛	
10⅛	12⅛	AbitibI g	1			81	12⅜	12½	12½	- ⅛
13	7⅝	AcmeC	.40	3.6	14	115	11⅜	11⅜	11⅜	- ⅛
9⅛	6	AcmeE	.20	3.7	11	37	8⅝	8½	8⅝	+ ½
38½	80	Acuson			20	672	28⅛	20⅜	29⅛	- ⅜
15⅝	12⅝	AdaEx 2	.05e	13.		237	15½	15⅜	15⅜	- ⅞
18⅝	8½	Adobe				619	e15⅞	13⅜	13½	- ⅛
19½	18½	Adob pf	1.84	9.5		21	19⅝	19⅛	19⅜	+ ⅛
21⅝	19⅞	Adob pf	2.40	11.		3	21⅜	21⅛	21⅜	
19½	7⅛	AMD				3114	8⅛	7⅞	8	- ⅜
38	29½	AMD pf	3	10.		289	29⅞	29⅝	29⅜	- ⅜
19⅛	8⅝	Advest	.16	1.8	13	139	8⅞	8⅛	8⅞	+ ⅛
60½	46	AetnLf 2	.76	4.7	10	4574	59⅝	58	58⅛	-1½
14	11⅜	AflPb	.24	2.1		455	11½	11⅛	11⅜	
25	12⅛	Ahmans	.88	5.0	9	7045	17½	16⅝	17½	- ⅛
6⅝	2⅜	Aileen				29	2⅜	2½	2⅜	
48⅛	20⅛	AirPrd 1	.32	2.9	11	1602	46⅛	45½	46⅞	- ⅜
38⅝	18⅞	AirbFrt	.60	1.6	19	259	61⅛	61⅜	37⅜	- ½
23⅛	14½	Airgas			13	180	23⅞	23⅝	23½	+ ⅛
20½	18⅛	Airlease 2	.40	12.	11	32	20⅛	19⅞	20	- ⅛
10⅛	8½	AlaP dpf	.87	9.1		46	9⅛	9½	9⅝	
98⅝	63⅛	AlaP pf	9	9.3		280	97⅛	97⅛	97⅛	

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	12⅝	Posth s				78	13½	13⅜	13⅜	− ⅛
36⅝	29	PotlEl	1.20	3.3	6	500	36	35⅝	35⅝	− ⅛
23⅜	19¼	PotmEl	1.46	6.4	11	1012	23⅜	22⅞	22⅞	− ⅛
38⅞	24	PrecCst	.08	.3	17	155	29	28⅝	28⅞	− ⅛
42	29⅝	Premrk	.84	2.8	11	658	30	29⅞	29⅞	+ ⅛
[illegible]										

— X–Y–Z —

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
69	50	Xerox	3	5.3	13	3806	57¼	56½	56⅞	− ⅛
49	44½	Xerox pf4.13		8.8		1	47⅜	47⅜	47⅜	−1⅛
44⅛	23⅜	XTRA	.72	2.8	21	444	27¼	26½	25½	−1½
33	21¼	XTRA pf1.94		8.5		43	23	22¾	22¾	− ½
4¾	2	Zapata				1070	6⅛	3¼	3⅛	− ⅛
21½	11½	ZenithE				1143	12½	12¼	12⅜	− ⅛
2½	3-16	vjZenLb				338	11-32	3-16	11-32	+3-32
21½	16	ZenNtl	.84	4.5	8	16	18⅞	18¾	18⅞	− ⅛
16	6⅞	Zenix	1.20	16.		x287	7½	7¼	7⅜	
18½	13¼	Zero s	.40	2.8	16	158	14⅝	12¼	14¼	
44⅛	25⅞	Zurnls	.76	2.0	16	430	38⅛	38⅛	38¼	− ⅛
12⅞	16	Zweig	1.12e	9.2		443	12¼	12⅛	12⅛	− ⅛
9⅞	8¼	ZweigTl	.96	9.7		1008	9⅞	9¾	9⅞	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject 10 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

4pm prices December 15

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
WiserO	.40	32 385	18¾	19½	19⅝	
Wolohn	.28b	16 255	18	17¼	17¼	− ¼
WrlvEx h		1806	12⅞	12⅛	12⅞	− ⅛
Worthg	.56	17 1347	24	22⅝	23⅝	+ ⅜
Wyman	.60	227	14¼	14¼	14¼	

— X–Y–Z —

Stock	Div.	Sales 100s	High	Low	Last	Chng
XL Dta s		6 976	6¼	6⅛	6¼	− ⅛
XOMA		1670	22	22	28	+ ⅞
Xicor		7 1387	3⅛	3½	3⅝	
YanEnS	.76e	166	21½	21	21½	
YelowF	.76	12 745	27⅞	27⅛	27⅞	+ ⅛
YorkRs		91	7¼	7½	7¼	
ZionUt	1.44	13	28½	27½	28½	+ ½

The Business Column

Back to basics: combating complexity

A COMMENTATOR risks being branded as barmy if he claims that the business world of the 1980s is ending as it began. Just look about you at the landscape, he'll be told, only a blind person could fail to notice the drastic changes.

Many rules of the game have certainly been transformed by the vicious intensification of global competition, the onset of widespread deregulation, the imminent creation of a single European market, and more besides.

But in another sense the claim is quite correct. For company after company is still divesting the diversifications it made in the 1960s and 1970s – even quite successful ones – and is going "back to basics." Daimler-Benz and other exceptions to this trend are just that – exceptions.

In the past fortnight Chrysler has finally bowed to the inevitable and joined the herd, putting its aerospace and defence business up for sale in order to get back to its car manufacturing core. Last week Volvo appeared to take the first step along a similar road, by selling-out majority control of its troublesome pharmaceuticals and food business to a Swedish state holding company in exchange for a purely financial stake in the latter.

Paradoxical tendency

Throughout the decade there has been a paradoxical, if understandable, tendency in the wake of such divestments for more attention to be focused on the divested units than on the other side of the equation: the health or otherwise of the remaining "core."

Thus Volvo's announcement dealt entirely with the benefits of the deal for its semi-divested interests, and talked not at all about the potential benefits for its core transportation businesses – in terms of greater top management attention and (presumably) more focused financial muscle.

Yet such focusing of head office attention is one of the main reasons, along with financial strains, for the flood of divestments which have taken place during the 1980s.

One after another, many parent companies have realised three things: that each of their businesses faces an unprecedented management challenge, thanks to the strategic and organisational complexities of competing against global rivals; that the nature of the challenges varies widely across types of business; and that if this creates too wide a variance in the "parenting" role required of head office, the parent must prune its portfolio.

This dilemma was expressed with unusual force earlier this month by Professor John Stopford of the London Business School, a long-standing expert on multinationals. The challenge of managing change within individual businesses during the 1990s would be immense, he told a Strategic Planning Society conference.

Global yet national

Among a daunting list of other strategic and organisational requirements, he argued that companies needed to learn how to reap the supposedly contradictory benefits of differentiation and low cost. They had to get the best out of co-ordination and decentralisation at the same time, in order to secure global integration while preserving national focus.

They also needed to organise themselves to work in cross-functional teams, yet make some functions more international than others. They needed to decide which activities to continue in-house, and which to subcontract through much closer relationships with suppliers. And they needed to learn how to handle alliances.

At the corporate level, things were even worse, said Stopford. Instead of having a single strategic formula and a north Atlantic axis, like far too many British companies, successful global competitors needed both strategic variety and geographic spread.

For a parent company to try, in addition to all this, to maintain a variety of businesses was "just not feasible," Stopford warned.

Too true. For Chrysler, Volvo, and hordes of other companies, the burning question has become how to limit complexity to something manageable. Hence the decade of divestment.

Christopher Lorenz

THE MONDAY INTERVIEW

A believer in the value of tension

Makoto Utsumi, Japan's Vice Minister of Finance for International Affairs, talks to Ian Rodger

At the regular press conference following the biennial US-Japan financial discussions in Washington last month, Makoto Utsumi, Japan's Vice Minister of Finance for International Affairs, suddenly turned philosophical.

Of course there were tensions between the US Treasury and the Japanese Ministry of Finance on several points, he said, but that was perhaps a good thing. "If we became too familiar, we might get too dependent on each other. I believe it is necessary to maintain a certain amount of tension in order to bring about progress."

Utsumi's listeners could be forgiven if they were so surprised at a Japanese official expressing any personal views at all that they missed the irony of what he was saying. In the canon of Japanese organisational behaviour, tension or friction is to be avoided if at all possible. The pursuit of harmony is the ultimate good, and mutual dependence is promoted as a way of making sure that people do not step out of line. Utsumi was thus advocating a very unJapanese type of relationship.

Utsumi is a rare creature in Japanese officialdom, someone who has not been overwhelmed by the organisation's demands and who pursues his ideas and his life as he sees fit. He does not, for example, play golf, which has become an essential ritual in Japanese business life. He prefers to go hiking in the mountains, either alone or with colleagues. And he is devoted to Zen Buddhism.

On the surface, Utsumi's career has been conventional enough. He entered the Finance Ministry with a Tokyo University law degree and marched methodically up the ladder to his current post. But along the way, he did some unusual things, such as studying for a year in Paris, working for four years in the Japanese embassy in Brussels and spending three years in Washington in the early 1980s, all of which, with the Zen, enabled him to be as comfortable with Europeans and Americans, in fluent French or English, as with fellow Japanese.

There is now a sizeable contingent of Japanese civil servants and business leaders who have lived abroad for long periods and have mastered western languages and customs. But most retain a certain reserve; with Utsumi, one feels a rare transparency of opinion and enthusiasm for ideas.

"It is said in Japan that personal relations are very important, but I feel exactly the same is true in dealing with foreign partners. I felt it very strongly when I stayed in the US. Human nature is the same fundamentally," he says.

Utsumi holds one of the most important and delicate positions in the Japanese Government. He is the man who heads Japan's effort to co-ordinate economic policy with the other leading industrialised countries, including foreign exchange rate management and Third World debt.

He believes the financial relationship between the Finance Ministry and the US Treasury has become the core of the relationship between the US and Japan, in effect displacing the strategic ties.

Some Japanese officials are impatient that despite being the country with the biggest capital surplus, Japan still has to defer to US leadership on international issues, but Utsumi is not one of them.

"No, it is not awkward. Through experience, I am convinced that the US is and should be the lead manager on things – for example, the Latin American debt issue – and we are, so to speak, co-manager. We do not have the ability to lead on international issues yet.

"For example, if you take the sum of all economic, political and social information about Latin America, and you measure the degree of US possession of that information at 100, maybe what we have is 10 or less, and that is true of our knowledge of most of the world. In the case of Asia, maybe it is a bit different.

"Also, on the Brady plan for solving the Latin American debt problem, we had to overcome objections in some European countries. This only became possible because of a strong lead from the US. Japan alone could not have achieved it. This is a fact of life and we recognise it. But I also think that without our co-operation, it would have been very difficult to get the plan going."

Tensions nevertheless arise. The question of Japan's representation in the International Monetary Fund (it is now ranked fifth behind the US, the UK, West Germany and France in voting power) has become particularly urgent, he says. "We are concerned because there is a growing sentiment among Japanese people, including politicians, that Japan is asked only for money. Other governments say we are not yet in a position to have a voice in international affairs. But it will be increasingly difficult for us to have the approval of parliament – especially this parliament in which the Liberal Democratic Party has lost its majority in the Upper House – for any co-operation in relation to multilateral institutions without having an adequate position in the IMF."

The IMF issue apart, Utsumi does not think that the relative roles of the US and Japan in international financial affairs are going to change very quickly. "There is no revolutionary change in these things. It is always evolutionary."

Internally, however, things move faster. Utsumi is particularly proud of the evolution in attitudes toward foreign countries in his own ministry in the past few years.

"We have much closer contacts with the US, UK, French, German, Italian and Canadian Governments on a bilateral basis than we used to. When we began the yen-dollar talks in 1983, I was in the US. At that time, Finance Ministry officials' reaction to the requests of foreign countries was first to seek a pretext for doing nothing and then to find ways to justify themselves. Now it is completely changed. First, they listen. Then they think whether or not it is possible. If it is impossible, they think carefully about the reason. This change of mentality is very remarkable."

As one of the few Japanese (and even fewer American) officials who have been involved from the beginning in the effort by the Group of Seven leading industrial countries to co-ordinate economic policies, Utsumi takes a long view of that process, and is undisturbed by the weakening of the yen this year.

The other focus of the international division of the Ministry of Finance has been opening Japan's capital markets to foreign institutions and investors. Utsumi totally supports that. "Japan is now growing to such an extent that we are inevitably one of the global players. If we have different rules, it will be increasingly difficult to be understood."

He acknowledges that the liberalisation process is not necessarily working out to the advantage of some foreign financial institutions, and he is grateful that foreign governments remained committed to the process. "Our counterparts in each of these countries are rather logical, and are not thinking only of the interests of special groups. Sometimes, they are *astonishingly* logical."

Many people would say that the Japanese Government is less logical and more pragmatic. That is to say, regardless of logic, it protects its special interest groups. "Perhaps," Utsumi says with a smile.

Having observed the government process in various countries, he is impressed by the huge differences in the way things work, but analyses them strictly from the point of view of someone who wants to get things done. "In Japan, the adjustment of interests in the nation is the task of the Government – that is, the civil service, including ministers. In the case of the US, all interest groups converge on the Congress rather than the Administration, so the adjustment of conflicting interests is mainly the task of the Congress."

Japanese economic policy-making also seems to differ from that in many other countries in that it lacks much dogmatic content. Utsumi shares that pragmatic approach. "Forecasts by economists are based fundamentally on past data. But something always happens which did not happen in the past, so maybe I believe to the extent of 60 per cent in the application of theories, but 40 per cent of me is sceptical."

PERSONAL FILE

1928: Born Tokyo; law graduate Tokyo University
1957: Joined Finance Ministry
1963: Secretary at Brussels embassy
1967-83: Finance Ministry posts including deputy director minister's secretariat and director planning and legal division
1983: Minister at Washington embassy
1986: Director-general, Finance Ministry's international finance bureau
1989: Vice Minister of Finance for International Affairs

Schooled in being endlessly cheerful

ON A TABLE in Mr Utsumi's spacious office in Tokyo's Ministry of Finance there is a framed photograph of two men in Buddhist monks' robes grinning broadly at the camera.

One of them is the Ozeki Nangaku, who was the abbot at the Daitoku temple in Kyoto for several decades until his death last year. The other is Utsumi himself, and he proudly tells visitors that he is still a half priest of the Zen sect.

Utsumi's devotion to Zen dates from his university days when he first visited Daitoku temple, met the abbot and pleaded to be introduced to the rigours of zazen meditation. The abbot refused and suggested instead that he come to Kyoto more often. He did so, but despite long sessions together, they never got round to zazen.

"The abbot gave me instead an education in being endlessly cheerful and learning to exploit the human being's potential to enjoy everything while acknowledging his weaknesses and foolishness and earthly desires," Utsumi once wrote of those days.

Utsumi says he ultimately understood why zazen had been ruled out. "A person who wants to do meditation while young would probably become rigid," he says. "The abbot probably realised that I was going to be too serious a fellow, so he gave me a tanuki education."

Tanuki is the Japanese word for badger. Japanese people believe that badgers have mischievous spirits and that sometimes this spirit inhabits a person, perhaps a pretty girl who then makes a fool of an over-amorous man. Thus, people dealing with Utsumi should perhaps beware of the tanuki.

Private rights and the public's need to know

JUSTINIAN

IT was ironic that on the day when the Press Council announced its Code of Practice for editors and journalists, which proclaimed the journalistic obligation to protect confidential sources of information and also restated the individual's right to privacy, the Court of Appeal paid lip service to the former and interpreted eccentrically the concept of privacy.

To recapitulate the tale of Mr William Goodwin, the young trainee journalist who has been found to be in contempt for refusing to obey a court order to disclose his source of confidential information: the courts have put a blanket on much of the background *information to the* case. According to the Master of the Rolls, "the plaintiffs (which are two interconnected private companies)) are a, and perhaps *the* leader in their very important field, which I deliberately do not identify, with national and international customers and competitors. They are faced with a situation which is in part the result of their own success. They have reached a point at which they have to refinance and expand or go under with the loss not only of money, but of a significant number of jobs. They are continuing with their refinancing discussions menaced by the source (or the source's source) ticking away beneath them like a time bomb."

The "time bomb" is a floating copy of a corporate finance plan which went missing one afternoon last month from a room at the companies' premises occupied by a team of outside accountants. For one hour the room was left unattended. The copy has not been recovered and its whereabouts are unknown. On the day following the copy going missing, Mr Goodman was contacted and told of the plan's contents. When he checked the information with the companies' offices they took steps to prevent publication and traced the source of the leak.

At no stage did the courts question the companies' security system or make any judgment about the length to which the courts might assist *those who are careless about* keeping documents secret. Since one of the criteria for ordering a journalist to reveal a source of leaked information is that it is "necessary in the interests of justice," the courts might properly take the view that a defective system for protecting confidential information would disqualify the person seeking protection from obtaining the assistance of the courts to unmask the leaker.

Lord Justice McCowan acknowledged that the basis for the journalist's duty to protect sources of information rested on the trust imposed by the informer on the journalist. But he countered that in the present case by concluding that the trust imposed by the anonymous leaker on Mr Goodwin was falsely based. That conclusion could be arrived at only if the court could determine the nature of the leak. Was the leaker a thief intent upon selling sensitive information, or was he merely passing on information for no reward which he considered should receive publicity in the public interest?

Lord Donaldson acknowledged that if the source was revealing illegal or iniquitous behaviour by the company, the court would deny assistance in tracing the leak. He predicated the case of a public company whose shareholders were unjustifiably being kept in ignorance of information vital to their making a sensible decision on whether or not to sell their shares. Such a feature, he said, "would erode the public interest in maintaining the confidentiality of the leaked information and correspondingly enhance the public interest in maintaining the confidentiality of journalistic sources."

Just so. But may not the consuming public of the products of this private company – "the leader in their very important field" – be entitled to know whether they will be purchasing from a company on the *verge of bankruptcy? If* the product carried a guarantee or needed servicing, the survival of the company would be of deep concern to the consumer.

If the courts placed insufficient weight on the public's right to maintain the journalist's obligation to preserve confidentiality of sources of information, the basis of the courts' approach is even more worrying. The root of the matter for the courts is to be found in Lord Donaldson's peroration to his lengthy judgment: "The public has no legitimate interest in the business of the plaintiffs, who although corporate in form are in truth to be categorised as private individuals. This is in reality a piece of wholly unjustified intrusion into privacy."

Lord Donaldson was clearly alive to the fact that an inanimate (or legal) person has no soul to be damned and no body to be kicked. But equally the collective activity of a number of individuals through the veil of limited corporate liability does not expose their personal dignity but only their joint commercial interests. The unwarranted invasion of privacy is about the right of the person in his individual capacity to be let alone. It relates to his private life and not to his occupation or profession.